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IN OPPOSITION TO AN INCREASE IN FREIGHT RATES

Presented to the Board of Transport Commissioners for Canada during hearings on the application for a 30% increase in freight rates.

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CHRONOLOGICAL SUMMARY

Oct. 9, 1946—Railway Association of Canada applies to Board of Transport Commissioners and Wartime Prices and Trade Board for authority to raise by 30% all freight rates except rates on grain in western Canada, which are set by the Federal Parliament, and rates on coal, in which case the Railways propose to increase on a per ton basis.

Oct. 25, 1946—Manitoba files a formal statement of opposition to the granting of such an increase.

Dec. 10, 1946—Representatives of the western and maritime provinces meet representatives of the railways to secure certain financial information connected with the case; railways refuse to supply such information without a formal order from the Board of Transport Commissioners.

Jan. 3, 1947—Board of Transport Commissioners holds preliminary hearing regarding financial information requested by provinces and subsequently orders railways to supply much of information requested.

Feb. 11, 1947—Hearings of Board of Transport Commissioners open in Ottawa; railways present evidence designed to show desperate financial need.

May 22, 1947—Regional hearings in each province begun by Board of Transport Commissioners.

July 22, 1947—Provinces begin reply to railways case for additional revenue.

Aug. 14, 1947—Hearings adjourned at request of railways to give them time to prepare rebuttal.

Sept. 15, 1947—Wartime Prices and Trade Board Order No. 92 cancelled, leaving railway rates legally governed only by regulations of Board of Transport Commissioners and by Railway Act.

Sept. 29, 1947—Railways announce to Board of Transport Commissioners that effective Nov. 1, competitive rates would be increased by 30% and also begin rebuttal evidence against provinces' financial evidence.

Oct. 6, 1947—Provinces challenge increase on competitive rates on grounds that no rate increases should be allowed until the Board has decided whether additional revenue is necessary to the railways.

Oct. 18, 1947—Board rules that the increases in competitive rates be suspended until further notice; railways conclude rebuttal evidence against Provinces' position; hearing adjourned to allow time for preparation of final argument.

Nov. 10, 1947—Formal argument begun by railways and provinces.

Dec. 17, 1947—Formal argument concluded; decision reserved.

Foreword

Since the early days of railroad construction in Western Canada, Manitoba has always been in the forefront of those who have opposed the efforts of the railways to take advantage of their quasi-monopolistic position in the Prairies by imposing high freight rates which must be paid by the people of Western Canada because they have no alternative transportation for the great bulk of the commodities which they buy and sell. Most of the people of Western Canada are farmers, miners, fishermen and other raw material producers, or those whose interests are closely tied to this kind of primary production. This is the very group which would be harmed the most by high freight rates. For example, in the case of livestock products the return to the Western farmer is the price at the market less the cost of getting the article to the market. On the other hand, in the case of manufactured goods, the manufacturer in Eastern Canada, because of his tariff protection, is able to sell in Western Canada at a price which is set by his factory price in Eastern Canada plus the cost of shipping goods from the factory to the user. Thus, high freight rates are a burden upon Western Canada both coming and going.

In view of these facts of economics and geography, the people of Western Canada have always been quick to oppose any proposal that freight rates should be increased. Consequently, when on October 9, 1946, the Railway Association of Canada applied for authority to raise freight rates by 30% with certain exceptions, Manitoba was quick to express its opposition and to prepare to state its position before the authorities charged with the responsibility of deciding the matter.

On October 25, 1946, a formal statement of opposition was filed by the Province of Manitoba, and since that time a considerable staff of officials and consultants have been continuously engaged on the matter. Mr. Wilson E. McLean, K.C., was retained as Counsel, to act on behalf of the Province, Mr. Walter J. Macdonald, F.C.A., was retained jointly with Saskatchewan to investigate all financial and accounting problems related to the matter. Mr. Robert E. Moffat, Economic Adviser to the Executive Council was assigned to deal with economic and statistical matters and to act as Chairman of the Manitoba Committee on Freight Rates.

I would like to take this opportunity of expressing my thanks to these men and to the others who have from time to time assisted in various aspects of the case. In particular, I would like to thank Mr. John Allen, K.C., Mr. W. C. Macdonnell, C.A., Mr. R. C. Sykes and Mr. W. J. Landreth for their contribution in their respective fields as well as Mrs. Joan McKone, Miss Thora Sigurdson and Mrs. Evelyn Edwards for their unfailing assistance in the great amount of office detail involved.

A word should also be said with respect to the wholehearted co-operation which has been received from various groups in the Province, particularly from the Winnipeg Board of Trade. Mr. W. P. Fillmore, K.C., Counsel for the Winnipeg Board of Trade and the City of Winnipeg has,

at all times, acted in close collaboration with the Manitoba Committee on Freight Rates and his advice and judgment has proved invaluable. Mr. C. S. Eccles, Transportation Secretary of the Board of Trade and Mr. Stanley Goldberg, retained by the Board of Trade to carry out certain economic research projects, have also been in constant consultation.

I would also like to thank the following persons who, in addition to myself and the Honourable D. L. Campbell, Minister of Agriculture, presented briefs at the Regional Hearings in Winnipeg.

Mr. Clifford E. Wood, on behalf of Manitoba Federation of Agriculture and Co-operation.

Mr. E. B. Chown, on behalf of Manitoba Co-operative Wholesale Limited.

Mr. F. J. Goodman, on behalf of Manitoba Dairy Association and on behalf of Manitoba Dairy and Poultry Co-operative Limited.

Mr. John B. Brown, on behalf of Canadian Co-operative Implements Limited.

Mr. H. E. Wilder, on behalf of Garment Manufacturers Association of Western Canada.

Mr. Richard J. Christian, on behalf of Anglo-Canadian Oils Limited.

Mr. F. D. Shepherd, on behalf of Mid-West Metal Mining Association.

Mr. Wilfred L. Parr, on behalf of Ray-O-Vac (Canada) Limited.

Copies of the briefs presented on behalf of these organizations and of the briefs presented by the Honourable D. L. Campbell and myself, will be found in Appendix "C" to this bulletin. The brief presented by Mr. Fillmore on behalf of the City of Winnipeg and the Winnipeg Board of Trade has been published separately and because of its length, it has not been incorporated in this bulletin.

Finally, I would like to acknowledge the excellent co-operation received from the other provincial governments and their representatives in this enquiry. The very nature of the case would have made it extremely difficult, if not impossible, for the people of Canada to have had an effective voice in the proceedings without such co-operation. Throughout the hearings, Manitoba and Saskatchewan, in particular, endeavoured to present an integrated case and on behalf of the Government of Manitoba I would like to express our particular appreciation for the excellent spirit in which that arrangement was carried out.

Hearings on the case began at Ottawa on February 11, 1947 and continued with only short adjournments until May 9. The railways began by presenting estimates of revenue and expenditures for 1947 which estimates, they argued, were clear evidence that the plight of the railways was serious and indeed desperate. They attempted to show that despite increased revenues due to higher volumes of traffic, increases in wages and costs of material were such that they were in need of additional revenue in order to maintain satisfactory service. A great number of railway witnesses were called in support of this position and the Provinces engaged in extensive cross-examination designed to show that in many aspects the situation was more favourable than would appear from the basic exhibits and designed also to provide additional information for the use of those who were preparing to offer evidence in reply.

On May 22, the Board of Transport Commissioners, after strong urging by the Provinces, began a series of regional hearings which eventually took them to every one of the nine provinces. At these regional hearings, freight shippers and the public generally were afforded an opportunity to adduce their reasons why freight rates should not be increased.

On July 22 the provinces began the presentation of their reply to the railways' financial case. In that reply, Manitoba took a leading part. Mr. Moffat was the first witness called and he was on the stand for four days of direct and cross-examination. Mr. Macdonald was the second witness called and his direct and cross-examination occupied eight days. All other witnesses called by the provinces to deal with financial matters occupied a total of six days on the witness stand. Attention was directed almost entirely to the C.P.R., on the ground that because of the location and history of the C.N.R., its financial arrangements and operating costs are such that it could not be considered as a significant indicator of the profitability of railway operations in Canada. A brief summary of the evidence submitted by Mr. Moffat and Mr. Macdonald will be found in the release issued by the Information Office of the Province of Manitoba on August 18, 1947. That release appears as Appendix "A" to this bulletin.

At the conclusion of provincial evidence on financial matters on August 14, the railways requested that proceedings should be adjourned until September 29, to allow time for the preparation of their rebuttal. During that adjournment the Wartime Prices and Trade Board withdrew its order which had placed temporary wartime ceilings on all freight rates. The railways promptly took action to raise so-called "competitive" freight rates and the provinces in turn, vigorously opposed that proposal. On October 18 the Board of Transport Commissioners ordered that these proposed increases should be suspended until further notice. Appendix "B" to this bulletin is a copy of a statement which I issued on November 8, reviewing the situation at that time with particular reference to the question of competitive rates.

On November 10, 1947, railway counsel began their formal arguments in support of their application which, with the provincial counterarguments and railway reply thereto, occupied all sittings of the Board until December 17 when the hearings were formally terminated. Mr. McLean began his argument on behalf of Manitoba in the afternoon of November 24, and concluded it on November 26. The main purpose of this bulletin is to make that argument available to a wider audience. Mr. McLean's argument as presented in this bulletin follows very closely the verbatim copy of his presentation to the Board. It has, however, been edited rather extensively in the hope that in this form it will be somewhat more easily followed. The editing has taken the form of the elimination of detailed references to specific exhibits or specific pieces of evidence, the addition of chapter and section headings, and, in a few places, the abbreviation or restatement of the argument. For purposes of direct quotation or detailed study one should refer to the verbatim copy which is available in the official transcript.

When formal argument was concluded on December 17 the Board of Transport Commissioners reserved their decision and it has not yet been

delivered. Regardless of what that decision may be I feel that the activities of the Province of Manitoba in opposing the application have been fully justified.

The railways themselves estimated that if their application was granted it would increase their revenue by $87,000,000 in 1947. Actually the volume of traffic has been heavier than the railways had estimated and consequently if the higher rates had been in effect it is probable that the additional charges for Canadian freight shipments would have amounted to an average of $7,500,000 per month. The railways also estimated that 49% of this increase or $3,675,000 per month would come from shipments over lines in Western Canada. It is not possible to estimate exactly what part of this $3,675,000 per month would have been paid by the people of Manitoba. Nor is it possible to give an accurate estimate of the proportion of the freight rates paid on lines in Eastern Canada which would ultimately be passed on to people living in Manitoba. However, if residents of Manitoba paid that proportion of the increased cost of shipments in the Western provinces that Manitoba's population bears to the population of the Western provinces, then the additional cost to Manitoba resulting from a 30% increase in freight rates would be over $800,000 per month or $9½ million per year. Had the provinces not opposed the railways' case, the increased freight rates would undoubtedly have been made effective at least as early as the Spring of 1947. Thus, the money saved to the people of Manitoba because of provincial intervention in this case, has already amounted to a substantial sum.

In addition to this monetary saving, Manitoba and the other provinces have already achieved a series of useful results from their activities in opposing the railways' application.

(1) They have forced the disclosure of C.P.R. financial policies, so that the people of Canada are in a much better position to judge whether or not they should be forced to pay higher freight rates.

(2) They have shown that the financial position of the C.P.R. is far from desperate and that it improved very substantially during the war years.

(3) They have demonstrated that the Canadian railways were well able to provide service during 1947 without the additional revenue which the railways said they must collect if satisfactory service was to be maintained.

(4) They have shown that the original estimates of railway revenue in 1947 were much too low and that the railways could handle a materially increased volume of traffic despite the much publicized shortage of equipment.

(5) They have demonstrated that C.P.R. depreciation charges envisaged for 1947 would have exceeded those required under recognized industrial practice by some $8 or $9 million.

(6) They have demonstrated that after a proper allowance for increases in wage and material costs and in traffic volume, the C.P.R. maintenance charges envisaged for 1947 (including depreciation) exceeded the 1939 level by $30 million even though the level of 1939 was sufficient to enable the C.P.R. in the succeeding war years, to do a magnificent job with safety and despatch.

(7) They have shown that the average level of all effective freight rates is higher by at least 14% in the West than in the East and that although the total amounts spent for working expenses in the two areas are almost identical, nevertheless, profits in the West exceed profits in the East in the ratio of 2 to 1.

(8) They have persuaded the Board of Transport Commissioners to hold Regional Hearings at which freight shippers and the public, generally, were able to express their views of the question of higher freight rates.

(9) They have prevented the Railways from taking matters into their hands in October by raising the so-called "competitive rates" without reference to the need of the Railways or without reference to the body constituted by the Canadian Parliament to supervise freight rates.

Stuart Garson

Office of the Premier,
Winnipeg, Manitoba.
January 5, 1948.

Chapter I

INTRODUCTORY ARGUMENT

Mr. Chief Commissioner and Members of the Board:

At the outset I must say that the Board has been extremely patient and attentive throughout what must have been to the members many tedious days. I wish to thank the Board for the hearing accorded us.

The members have been fully aware, as we are, that this is a case of the first magnitude. This is not mere litigation between subject and subject. It is a proceeding which directly or indirectly involves every resident of Canada and which may and can have far-reaching effects on the national wellbeing. As I have said, this is no mere lawsuit. It is a proceeding wherein $87 million, a very large sum of money, will be charged mainly upon Canadians, not for one year but for each year until some further change is made.

I desire to acknowledge the kind co-operation of my learned colleagues appearing for the other respondents. Without that co-operation this case would have been a much more arduous task. I particularly want to thank my learned friend Mr. M. A. MacPherson, K.C., representing Saskatchewan. He especially assisted me when at times circumstances necessitated my absence. Manitoba and Saskatchewan throughout these proceedings have presented an integrated case and have avoided some considerable repetition.

While this Board faces a gargantuan task in examining into the mass of evidence presented, it is my considered opinion and my submission to this Board that:

(a) it is not faced with the necessity of assessing the credibility of witnesses in the same manner as is so common in ordinary litigations; and

(b) it is not under the necessity of considering a great many of the exhibits and much of the evidence which has been presented.

A word or two upon these two points will, I think, make my submission clear.

On the first point it would appear that most of the facts which have been deposed to and the proper inferences therefrom speak for themselves and upon these the Board may draw its own conclusions. To a large extent the testimony has related to the interpretation of these facts and the conflicts, to the extent that they have existed, have been conflicts of opinion and with respect to interpretation. I think it may be fairly said that generally speaking all witnesses have endeavoured to be as objective as possible in giving their evidence. In the final analysis it is a question of interpretation of the facts as given in evidence.

It is my submission that due to developments during the hearing and in the course of the hearing much of the mass of exhibits and testimony may now be disregarded. I noted in his argument that Mr. Carson agreed with this view. This is particularly true in connection with the matter of estimates of revenue and matters of like import. We now have actual figures for the greater part of the year 1947. True, some of these exhibits may be of interest in assessing some of the opinion evidence, but the important, the crucial exhibits are:

(1) in the case of the Canadian Pacific Railway; Exhibit No. 22 which is the consolidation of the estimates of 1947 revenue and expenditures prepared by C.P.R. witnesses.

(2) in the case of the Canadian National Railways; Exhibit No. 8 which presents the same data for the C.N.R.

The Railway Association of Canada on behalf of its member Companies by its application dated 9th October, 1946, applied to the Board "for authority to make a general advance of 30% in the tolls or rates at present charged by them in respect of all freight traffic carried on their lines in Canada in the manner outlined in Schedule B . . ." In support of the application the Railway Association made eight separate submissions. These submissions related to the matter of financial need and gave no basis other than need based upon increased wage and material costs. The evidence followed the same course.

In the preliminary proceedings and at the outset of the substantive hearing, the applicant based its case on financial need and accepted the onus of establishing that need. It follows, therefore, from the foregoing that the problem of the Respondents, in the first instance, was and is to meet the case of financial need. Manitoba and Saskatchewan in the evidence which they have led have, I submit, directly dealt with that issue.

Before proceeding, there are two points that I would like to refer to and these arise out of the arguments which were advanced by railway counsel, to which we take some considerable objection.

In the first place, Mr. O'Donnell, in quoting Commissioner Eastman of the Interstate Commerce Commission, certainly inferred that if responsible officers of the railway gave evidence that they needed so much money, that was more or less the end of the matter and the Board should ipso facto grant the increase. No doubt those opinions are entitled to considerable weight but it does not follow that they are not open to question. We, of the Provinces, have a status here and it is our duty to question these opinions and issues. This matter of "financial need", we submit, must be approached as one would approach any business matter and the possibilities of the situation, in the light of general business practices, must be assessed. The railway witnesses, no doubt, are convinced of the correctness of their cause but their very zeal may lead them to opinions which must be assessed in the light of the facts and in the light of general knowledge.

In the second place, it was argued by Mr. Dysart that a very small section of freight users had appeared to oppose this application. We do not agree that that correctly represents the situation. No doubt the busi-

nesses referred to by Mr. Dysart have not appeared here but the reason for that is not far to seek. Industry, generally speaking, passes on the additional freight rates as costs to the consumer and is, therefore, not very vitally concerned. Further, these costs which are passed on by industry will eventually fall upon the vast unorganized body of consumers. At the same time the farming population and others who produce primary products for export must bear the added costs themselves for only rarely can they pass them on. Although these groups are not represented here directly, Mr. Dysart cannot assume that they are not concerned with the proposal to raise freight rates.

Having regard to the nature of the application and the position taken by the railways it would appear that there are two questions for decision.

First—Have the railways made out a case of financial need requiring an increase in rates?

Second—If the answer to Question No. 1 is in the affirmative, then how is that need to be met?

As I have indicated, this application is one which intimately affects the national well-being. The Government of the Province of Manitoba recognizes the essential character of the railways in the economy of Canada. They are essential for mass transportation, particularly of the heavy products of the West. It follows that efficient, economically operated railway transportation is an absolute necessity in Canada.

However, I should say that Manitoba is of the view that Canada does not require the most expensive luxury streamlined passenger equipment and super roadbeds for very high speed trains. After all, we are a relatively small country population-wise, with some distinct geographic disadvantages. The latter make our railway bills expensive. We feel we can very well continue to carry on without some of the "frills" that have been mentioned. If the railways feel that some of these things are required in Eastern Canada, then we say that we in the West should not be expected to pay freight rates which will provide these luxuries which will be of little or no advantage to us.

One other point should be mentioned. Mr. Pitblado in his argument said, in effect, that the railways should not be required to retrench, but rather were entitled to higher rates for modernization. We submit that our evidence has shown that we can have relatively modern and efficient service in Canada without extravagant expenditures. If the railways are spending more than is necessary, as we submit they are, then they should be told to improve their finances in the manner open to any efficiently managed business. More will be said on this question later herein.

On the late evening of November 17th we were advised by the Honourable, the Minister of Finance of the inauguration in Canada of what may be termed an "austerity" program. Even a cursory examination of that program will disclose that, while one of its essential purposes is the conserving and building up our reserve of U.S. dollars, another and very essential purpose is that of curbing the dangerous inflationary tendencies so rife in Canada today—and for that matter—rife elsewhere in the world. Any increase in the price of railway transportation will have a very serious

inflationary tendency. I need not elaborate on that. I, therefore, submit that this Board has a very serious duty to discharge in the national interest.

The railways have, in their argument and in evidence, said "costs have risen, therefore our rates should go up. We do not ask for anything more than most other businesses". I submit that is not sufficient. Today we live in a time of different economic and political concepts. That argument may have sufficed during and after the last war. Today they cannot merely say "increased costs entitled us to increased rates." They must prove financial need and inability with present increased revenues to meet increased costs. Just and reasonable rates are not fixed merely on the basis that operating costs have risen.

The Railways have also said that because business conditions are good then this is the time to raise rates, rather than at a time of falling business conditions—the latter is too dangerous. We say that if it is too dangerous to raise rates during depressions it is likewise too dangerous to raise them in times of inflation. That will only add to the inflationary spiral.

Having regard to the avowed policy of the Government to curb inflation—especially by the drastic measures now adopted—it does seem a matter of fair comment that it is odd that the Government-owned railway should, at this time, join with other Railways in seeking a rate increase. It certainly cannot be described as a good example to private business.

The Railways have further said that because operating costs have gone up they are entitled to an increase in rates without proving just what the additional amount of revenue will be. They say "we think we will require a minimum of 30%. Give us that. If we do not need that, reports will be filed with the Board and it can reduce rates if this appears to be high". It is our firm contention that that is not a proper method of fixing just and reasonable rates.

Thus, in appearing on this application the Manitoba Government has done so, in the first place to be certain that the question of financial need is thoroughly and completely reviewed, and, secondly, to assure that any remedy which may be found necessary is applied equitably on a national basis.

Chapter II

REVENUE 1947

My detailed presentation of the financial aspects of the case will relate to the revenue for 1947 and depreciation charges for 1947, although I will mention some other matters.

In the first place, Mr. Chief Commissioner, and without repeating all of the arguments which have been made, it is the submission of the Province of Manitoba that, in determining financial need, only the position of the Canadian Pacific Railway Company should be considered. The reasons for this view have been argued by other counsel and I have no doubt you will hear further submissions on the point. Later on I will have a very short summary of these reasons, but I do not propose to burden the Board with them at this point.

During the course of evidence there were references to the "general overall financial position of the Canadian Pacific Railway". In the first place in the course of his evidence, Mr. George Walker, Vice-President of the Canadian Pacific Railway, stated that the railway was in urgent need of financial aid. In this connection also, Mr. Liddy made the statement that the Canadian Pacific Railway was in a perilous financial position. Mr. Crump also took the position that the company was in a critical financial position. Mr. Unwin was more moderate. He spoke of a "disquieting financial position".

It is our submission, Mr. Chief Commissioner, with due respect, that these statements are not borne out by the experience of the year 1947. If the improvement in the financial position of the C.P.R. for the period 1940 to 1947 is examined, it will be seen that such a statement can only be characterized as "unduly pessimistic" and based upon a misapprehension as to the prospects for the year 1947.

The application of the railway company was, of course, not restricted in terms to the year 1947, but it was apparent that the railways were justifying their application in terms only of the estimated results of the year 1947. Repeatedly, throughout the proceedings, witnesses were asked to forecast for 1948 and in each case the witness stated that he had made no forecast. That was particularly true on the question of revenue, and all witnesses said they were not in a position to express an opinion.

Taking the situation by and large, as disclosed by the evidence, and the progress of the railways during the year 1947, one must inevitably be forced to the conclusion that the application for an increase was not based on what might develop in 1947 but was an endeavour to obtain an increase in rates during a period of high prosperity and large volume, looking forward to a period some time in the future when perhaps the volume of traffic would be considerably reduced.

It is our submission, in the light of the foregoing that the application should be scrutinized with extreme care and that the rates should not be raised merely to meet possible future needs. I now propose to deal specifically with the subject of 1947 revenue.

The latest available figures on the Canadian Pacific Railway's gross revenues cover the period up to the end of October, 1947.

For the first ten months of 1947, the gross revenues of the Canadian Pacific Railway were $264.8 million compared to $242.9 million in the same period last year; in other words, the C.P.R. gross railway operating revenues were up by $21.9 million in the ten months. The breakdown of this figure is shown in the following table.

TABLE I

C.P.R. Gross Revenue Change First 10 Months 1946 to 1947
$1,000,000

	Jan.-Feb.	Mar.-Apr.	May-June	July-Aug.	Sept.-Oct.	10 Months Total
Rail Freight	+1.9	+6.6	+8.2	+5.6	+5.4	+27.6
Passenger	−2.1	−1.2	− .3	− .4	− .8	− 4.8
Mail	0	0	0	0	0	0
Express	− .1	0	0	− .1	0	− .1
All Other	−1.1	0	− .3	+ .2	+ .3	− .7
Railway Operating Revenues	−1.4	+5.4	+7.6	+5.4	+4.9	+21.9

It should be noted that this table only shows the data to the nearest $100,000 and that consequently there are some cases where the totals shown are not exactly equal to the sum of the constituents. However, if the figures had been carried out to the nearest dollar the result would have been mathematically correct. In no case is the discrepancy greater than 1/15 of one percent of the total with which we are dealing.

Looking at the table, the rail freight for the January-February period is $1.9 million over the corresponding two months' period for 1946, and March-April, it was $6.6 million; May-June, $8.2 million; July-August, $5.6 million; September-October, $5.4 million and the ten months' total is $27.6 million—in every case there is an increase over the corresponding period last year. The other items show a decrease except in the case of one or two in "all other" and in the case of mail where there is no change. The sum total of these changes indicates that C.P.R. operating revenues showed an increase of $21.9 million for the first 10 months of 1947 as compared with the same period of 1946.

In addition to this table showing the actual changes in revenue in the first 10 months of 1947 as compared to 1946, I have tabulated the C.P.R.'s estimate of the changes for the full year 1947 as compared to 1946. The column "1947 revenue as estimated by C.P.R. witnesses" was obtained from exhibit 22 using basis B, namely the figures estimated by C.P.R. witnesses as their revenue in 1947 on the assumption that they were unable to put into effect the rate increases applied for in this application. The table is as follows:

TABLE II

	1946 Actual Revenue	1947 Revenue as Estimated by C.P.R. Witnesses	Estimated Changes 1946-1947
	$1,000,000	$1,000,000	$1,000,000
Rail Freight	217.5	222.5	+5.0
Passenger	45.4	37.0	−8.4
Mail	4.2	4.0	− .2
Express	7.1	6.5	− .6
Water Freight	1.0	1.0	.0
Other Operating	19.3	16.3	−3.0
Railway Operating Revenues	294.5	287.3	−7.2

If one attempts to compare this table with Table I, it should be noted that since the data for the first 10 months of 1947 have been provided in a table which does not separate "water freight" from "other operating" these two items have been consolidated in Table I.

Thus, C.P.R. estimated a decrease in railway operating revenue in 1947 as compared with 1946 to the amount of $7.2 million. Yet the actual railway operating revenue for the first 10 months of 1947 has shown an increase of $21.9 million.

Freight Revenue

Rail freight revenue for the first ten months of 1947 amounted to $205.2 million, an increase of $27.6 million or 15.5% over the same period last year. This was the result of:

—an increase in tonnage which amounted to 12.5% during the period up to the end of July and to a somewhat smaller percentage since then, although no precise figures are yet available;

—the increases in international and related rates which became effective January 1st, 1947;

—the additional increases in international and related rates which became effective in September, 1947;

—the higher export rates on grain from the Bay ports to lower St. Lawrence ports.

These higher rates will apply to the months of November and December and there is no evidence of any decline in traffic volume. In fact, for the first two weeks of November, Canadian carloads were up 2.9% and cars received from foreign connections were up 3.9%.

Even if developments arising out of the new policy in regard to foreign trade should mean that total tonnages handled in December, 1947 do not exceed tonnages in December, 1946, it seems clear that gross freight revenue for the C.P.R. for the last two months of 1947 will exceed revenue for the same period of 1946 by at least $4.0 million.

On this basis the total revenue for rail freight for 1947 would be $249.1 million. That would be $26.6 million or 12 percent over the figure of $222.5 million estimated by Mr. Jefferson. It will exceed the figure of $248.7 million estimated by Mr. Moffat.

Before leaving the matter of freight revenue estimates a short reference to the evidence should be made. During the hearing, both Mr. Jefferson and Mr. Knowles estimated freight revenue substantially on 1946 levels. They also said that even if more tonnage were offered in 1947, which both of them did not think would be the case, the railways could not carry it because of car shortage. I submit these estimates were too pessimistic and the car shortages have not materialized.

A few figures will illustrate the point. From January to July, inclusive, of this year, the Canadian Railways handled 85,432,729 tons of all types of freight or an increase of 12.5 per cent over the comparable figure for the same months of 1946. I would emphasize that the increase of 12.5 percent applies to the period up to the end of July. And yet on July 23rd and July 24th Mr. Carson in cross-examination of Mr. Moffat introduced Exhibit 330 which he presented as conclusive proof that an increase of 10.3 percent was far beyond the capacity of the railways to handle.

Passenger Revenue

In the case of passenger revenues it was estimated that there would be a decrease in 1947 over 1946 of $8.4 million. For the first ten months of 1947 passenger revenues were $33.8 million, a decrease of $4.8 million from the same period of 1946. The trend during 1947 is shown in Table I.

In the first quarter of 1946 I think the evidence shows there was considerable movement of troop traffic and of families of servicemen from Overseas. Consequently the first quarter of 1947 showed a considerable drop over the corresponding quarter of 1946. In the second and third quarters passenger revenues appear to have stabilized at a figure which is not significantly below the corresponding months of 1946, if one considers the volume involved.

In attempting to assess the outlook for the last two months of 1947, one must not overlook the fact that there have been several increases in passenger fares, on which we have no definite information as to the amount. I suggest that for the last two months of 1947 passenger revenues will not show a decline of more than $400,000 as compared with the same period of 1946. If that result follows, the total revenue from rail passengers in 1947 will be about $5,200,000 below the level of 1946. In other words the estimate will have been exceeded by $3,200,000.

Mail and Express Revenue

With regard to the next item in the table, which is mail, Exhibit 22 was based on an estimate that this item would show a decline of less than a quarter of a million dollars from 1946 to 1947, but there is no evidence of any significant decline in the actual record.

In the case of revenue from express, Exhibit 111 shows that the 1947 estimate was $6,500,000 as compared to a 1946 actual revenue of $7,100,000 as shown in Exhibit 17. In other words, Mr. Liddy had based his figures on an estimated decline of $600,000 in this item. That again appears in the second table. However, for the first nine months the revenues from express dropped by only $100,000. In other words, if there is no sudden change, this item will exceed the estimates by about half a million dollars.

All Other Revenue

The last item is "All Other". This final item includes the revenue from "Other Passenger Train", "Water Lines", "Sleeping Car", "Switching", "Dining and Buffet", "News Service", "Restaurant", "Demurrage", and "Grain Elevators". The C.P.R. have estimated a revenue from this source of $17.3 million for the year 1947 which is equivalent to a decline of $3 million from the 1946 figure. However, from the trend of this item in Table I it seems clear that the last two months of 1947 should do at least as well as the last two months of 1946. If that result is realized revenue from this source will exceed the C.P.R. estimate by $2.3 million.

It is, therefore, my submission with regard to C.P.R. railway operating revenue that the Board should anticipate that the estimates shown in Exhibit 22 will be exceeded by the following amounts:

Freight	$26.6 million
Passenger	3.2 million
Mail	.2 million
Express	.5 million
All Other	2.3 million
TOTAL	$32.8 million

If that figure is realized, Railway Operating Revenue for 1947 will be $320.1 million.

In Exhibit 22 this item of Railway Operating Revenue is reduced by the net debits on "hire of equipment" and on "joint facility rents" to give gross earnings. In 1946 these two items showed a net debit of $2.1 million. Actual figures for the first nine months of 1947 show, however, that for that period, the net debit has been almost $2.8 million. That is $700,000 more than the whole of 1946. Consequently it seems likely that the net deductions for "hire of equipment" and for "joint facility rents" will be somewhat larger than the $2.1 million recorded in 1946. If it should be as large as $3.1 million the gross earning figure for 1947 would be $317 million as compared with $285.4 million estimated in Exhibit 22.

It is therefore my submission that in the light of present information the Board would be justified in anticipating that C.P.R. gross earnings for 1947 will not be less than $317 million. The significance of this figure is indicated in part by the fact that the comparable gross earnings figure for 1946 was $292.5 million, while the wartime peak as shown by Exhibit 13 was $318.9 million in 1944 and the figure in 1939 was $151.3 million. In other words if that submission is accurate it is within $1.9 million of the all-time high which occurred in 1944. I am speaking only of gross railway revenue, so there is no misunderstanding about that.

Chapter III

DEPRECIATION

In connection with operating expenses the Province of Manitoba together with Saskatchewan introduced considerable evidence in connection with

(a) maintenance of way and structures; and

(b) maintenance of equipment.

It is the submission of the Province that having regard to all of the circumstances these operating expenses are in excess of those which are reasonably necessary. This will involve a consideration of

(a) charges for depreciation not only as to way and structures, but also with respect to equipment;

(b) direct maintenance of way and structures expenses;

(c) direct maintenance of equipment expenses.

I propose to deal first of all with depreciation. The other two items, direct maintenance of way and structures expenses and direct maintenance of equipment expenses will be considered together. In order to avoid duplication, Mr. MacPherson has dealt in detail with maintenance expenses but there is a further approach to that subject that I wish to make.

While depreciation was treated in evidence and must likewise be treated in argument as a distinct subject, it is interrelated with maintenance charges because it is, among other things, an annual charge under the heading of maintenance.

Mr. Evans, in argument, suggested that the attack of the respondents on the C.P.R. method of depreciation was motivated solely by expediency. We do not agree with that. We feel that we have a ground for questioning the C.P.R. method. He said we wish to reduce the amount. Certainly we wish to reduce the depreciation charge if it is unreasonable, because after all the freight user pays it, and I think he may properly be heard on the subject without his motives being impuned.

It seems to us to be a matter of proper comment that at the time the C.P.R. adopted the user method it was obviously of advantage in corporate finance.

Mr. Thompson, and Mr. Evans referred to this in his argument, made the statement that, considering the interests of the users of the railway, the railway itself, the shareholders and the investors, the user basis is more equitable than the straight line basis. Mr. Glassco was also referred to as having made a similar statement.

We cannot subscribe to the view that the interests of the users of the railway are advanced by the user method. We think the case is rather the reverse. The only possible case would be if rates moved up and down with traffic volume or the financial condition of the railway. There is no

evidence of this having occurred in the past and I submit there is no indication that in the future the rates will be so geared.

The evidence on the user basis was introduced in chief by Mr. Liddy. He sought to justify the user method adopted by the C.P.R. for its own purposes. He also sought to justify the rate established and the propriety of using this rate for the 1947 estimate of depreciation charges. On behalf of the Provinces of Manitoba and Saskatchewan Mr. Walter J. Macdonald, F.C.A., gave evidence in reply.

The C.P.R. evidently regarded the respondents' evidence as very material for they called in reply three chartered accountants, namely, Messrs. Thompson, Glassco and May, as well as Messrs. Newman and Crump, technical officers. The railway sought by these witnesses to justify on a purely theoretical basis the user basis of depreciation and to attack Mr. Macdonald's evidence on certain points.

Not one of the rebuttal witnesses could give any evidence of the propriety of the rate established although they admitted that this was the vital point with respect to any depreciation method. For example, Mr. Glassco was asked this question at page 15417:

> Q. The validity of any depreciation method must depend on the propriety of the rate struck?

to which he answered:

> A. I think any method can only be discussed upon the assumption that a proper rate will be struck.

Again at page 15558 Mr. May was asked this question:

> Q. Well, I would like to put this question to you: The propriety of allowing the use of the user basis in any case will depend on the propriety of the rate, is that not so?

and he answered:

> A. Oh, that, I agree, yes.

It is therefore clear that not one of these rebuttal witnesses knew anything about the formulae adopted in 1940 and 1942. On that we have only Mr. Liddy.

While certain portions of the evidence of the witnesses above-mentioned must, of necessity, be referred to it is not my intention, and I submit it is unnecessary, to deal with this mass of evidence at great length. Certain matters stand out and many of the conflicts of opinion can be properly resolved on an assessment of the situation in the light of facts which are not seriously in dispute.

Definition of Depreciation

At the outset it seems advisable to define our terms and to ascertain just what the essential features of depreciation are. One definition of depreciation was quoted by Mr. Macdonald as follows:

> " . . . 'depreciation' is the loss, not restored by current maintenance, which is due to all the factors causing the ultimate retirement of the property. Those factors embrace wear and tear, inadequacy and obsolescene. 'Annual depreciation' is the loss which takes place in a year."

The above definition is the one adopted in *Lindheimer* v. *Illinois Bell Telephone.* This was a crucial case which crystallized the thinking of all American regulatory authorities.

In addition to the foregoing definition Mr. Glassco, gave the following definition:

> "Depreciation accounting is a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage if any, over the estimated *useful* life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation not of valuation. 'Depreciation for the year' is the portion of the total charge under such a system that is allocated to the year. Although the allocation may properly take into account occurrences during the year, it is not intended to be a measurement of the effect of all such occurrences."

I submit that there is little essential difference between those definitions. It is more a question of the method of approach. After all, annual depreciation charges are merely a method of spreading the original cost of an asset over the years of its useful life and have nothing to do with the replacement of the asset.

In support of the foregoing one has only to refer to Mr. G. O. May's "Financial Accounting" at page 118. There he says:

> "Annual depreciation charges are an amortization of cost over useful life. They are not an attempt to measure a change in value; they have nothing to do with replacement."

It appears from the evidence that the major factors in depreciation are:

(a) wear and tear due to the actual use of the assets.

(b) wear and tear due to action of the elements, natural decay, etc.; and

(c) obsolescence.

It is submitted that the evidence of Mr. Macdonald, supported as it is by Mr. Glassco, establishes these as the major factors. Mr. Glassco did express the view that wear and tear was a somewhat larger factor than Mr. Macdonald considered it to be.

Much evidence was given by various witnesses as to the importance of these various factors; principally as to the effect of use and its restoration by current maintenance. Something further will be said on this point later.

C.P.R. Depreciation Policies

I now propose to deal with the C.P.R. depreciation policies. In the course of its history the C.P.R. has had three different methods of providing for the return of the original cost of an asset utilized in its service. These are:

(a) the replacement or renewal system;

(b) the retiral system; and

(c) depreciation accounting.

While Mr. Thompson disagreed with Mr. Macdonald on the comparability of the annual charges arising from the three different systems of providing for depreciation, he admitted on cross-examination that the intention was in each case the same. Mr. Glassco did not go as far as to say the three systems were not comparable—certainly as to the dollar annual charges. Mr. Liddy, on the other hand, regarded the situation under these three methods as comparable. It is submitted that while there may be a difference of opinion about the comparability, percentage-wise to gross revenue, of the three systems, it cannot be gainsaid but that the annual dollar charges are comparable.

If one takes Exhibit 335D, relating to charges from 1920 to 1946, inclusive, for rolling stock, renewals, retirals and depreciation, one cannot but be struck by the increase in the annual charge when depreciation accounting is adopted. In the first ten-year period from 1920 to 1929, inclusive, under the renewal system the average charge was $5.5 million per year. In the next ten-year period from 1930 to 1939, inclusive, under the retiral system the average charge was $3.6 million, while in the third period, namely that from 1940 to 1946, inclusive, under depreciation accounting the average charge was $13.6 million. On the increased traffic for the year 1947 the $13.6 million would be well over $15.0 million for equipment depreciation in 1947. Notwithstanding the effort to explain away these differences in charges, it is submitted that the foregoing comparison of dollars is so significant as to require the most critical examination.

As to rolling stock, it is to be observed that the C.P.R. followed the renewal system until the end of 1929—that is the so-called heroic policy; the retiral system until the end of 1939 and only in 1940 did it inaugurate depreciation accounting. Road remained under renewal until mid-1942.

Another significant fact which must be noted having regard to the very substantial increase in annual charges after inauguration of depreciation accounting is that there must have been a very substantial amount of accrued depreciation at the installation of the system. This must be so in the light of the age of the Canadian Pacific insofar as road and structures are concerned and in the light of the fact that C.P.R. equipment was very old at the time of the inauguration of this system. Much evidence was given as to the computation of accrued depreciation and I will later refer to what function that has at the present time.

There was some recognition by the C.P.R. of this past accrued depreciation, for on the inauguration of this sytem of accounting with respect to equipment in 1940 a reserve of $56 million odd, was set up. Apparently, $8 million were brought forward from the retiral reserve and $48 million transferred. There was a similar reserve set up in the amount of $74 million for roadway and structures when depreciation was first used for this asset in 1942.

I submit it is clear from the accounting evidence that neither of these reserves was adequate to represent true past accrued depreciation although there was some difference of opinion as to the amounts.

What is the importance of this matter of setting up, or in the case of the C.P.R. its failure to set up, adequate reserves for past accrued depreciation? The answer is that the failure to so compute past accrued depreciation may

permit, by unnecessarily high depreciation rates, the recouping of inaugural deficienceis. It can be and is used as an objective test of the propriety of the depreciation rate applied. The U.S. regulatory authorities insist upon the rectification being made.

The cross-examination of Mr. Liddy and also Mr. Thompson, showed that while the C.P.R. had only inaugurated depreciation accounting in 1940 and mid 1942, and the American roads had depreciation accounting on rolling stock from 1914, the amount in the C.P.R. reserves in 1946 represented very little less percentage-wise to inventory value than did the reserves of the American roads in 1945. Surely this is significant with respect to the rate used in accumulating the charges from inauguration in 1940 and mid-1942 until 1946.

Mr. Macdonald showed that the opening reserves were short about $75,000,000, at least for equipment and yet in 1946 it was comparable to the U.S. roads.

Certainly, whatever else may be said, it must be axiomatic that deficiency in past provisions for depreciation cannot be charged up to present and future shippers.

Method of Calculating Depreciation

Without considering in detail at this stage the relative merits of the two main systems of depreciation accounting discussed at length by the accountants in their evidence, it suffices to say that the methods adopted by the C.P.R. was one which, in a time of high revenue reflecting high use, was designed to give more substantial annual charges. It is submitted that this evidence is significant as to the thought underlying the adopting of this particular method by the C.P.R.

It must be self-evident that a method of depreciation calculated to produce high annual dollar charges was adopted at a time of high revenue and very high income taxes. This may be very beneficial from a corporate point of view and for corporate purposes but we are here representing the freight users and we have, I submit, a duty to critically examine the course followed.

I submit that, having regard to the age of equipment and the difficulty of policing it, this method affords a means of imposing an unreasonable charge upon shippers.

Depreciation and Maintenance March Together

Mr. Macdonald in his evidence in chief referred to and dealt with the inter-relationship of depreciation and maintenance policies and gave it as his opinion supported by engineering advice from the Interstate Commerce Commission, that a high standard of maintenance substantially postponed the exhaustion of the service life of assets, and on the same authority that use of equipment was almost entirely restored through current maintenance. The converse, of course, is true, namely, that where there is a low standard of maintenance there is a shortening of service life. Put another way, the proposition was that the effect of wear and tear, whether due to use as such, or the action of the elements, natural decay, etc., can

be largely overcome by current maintenance. The definition of depreciation previously quoted, namely, depreciation is the loss of service life not made good by current maintenance, certainly supports this thesis.

On the foregoing basis Mr. Macdonald made the generalization that "maintenance and depreciation march together". The importance of this lies in the fact that if you have a high standard of maintenance, largely making good depreciation due to wear and tear, you have a prolonged service life with the result that your depreciation rate should be reduced. Such reduction should take place irrespective of the basis upon which the rate is calculated, i.e., whether it is on the straight line or whether it is on the user basis. If high maintenance costs are charged extending service life then it follows that a much lower depreciation charge should be made. No utility can have high maintenance rates prolonging service life and at the same time have high depreciation charges, in all fairness to the users.

In the course of my cross-examination of Mr. Glassco, I referred to the Pennsylvania System and its treatment by the Interstate Commerce Commission. It is a fact which can be verified by the Board, that because of high maintenance producing a longer service life, there was a lower annual charge for depreciation.

The effect of maintenance on service life was dealt with not only in cross-examination but also in rebuttal evidence called on behalf of the C.P.R.

Mr. Newman gave evidence largely directed to the question of obsolescence. This constituted, I submit, a second string to the bow of the C.P.R., i.e., even if a high standard of maintenance prolonged service life in the past, this would not be true of the future due to the greater weight to be attached to obsolescence. The evidence of Mr. Newman, as to the importance of obsolescence, is in direct conflict with that of Mr. Liddy who said: "Obsolescence is one of the items. It is a small portion of the items."

Then Mr. Thompson in his evidence in chief, quite disagreed with Mr. Macdonald's statement about "Maintenance and Depreciation marching together" but I submit he showed, in cross-examination, that he had no knowledge of the effect of replacements on prolonging service life.

Mr. Glassco's evidence in the final analysis supported Mr. Macdonald's proposition that there was a close relationship between maintenance and depreciation. Mr. Glassco merely wished to qualify his answers as to the extent to which useful life could be prolonged by maintenance, but he admitted that it could be prolonged.

Mr. May had no knowledge of maintenance policies in Canada and their effect.

In the light of this attack on Mr. Macdonald, what is the evidence in support of his position that high maintenance prolongs service life and therefore should attract a lower depreciation rate?

Mr. Glassco, while obviously attacking Mr. Macdonald, was fair enough to admit that he agreed with Mr. Macdonald's premise that to the extent that wear and tear is restored by current maintenance it is not a factor in depreciation. It appears from his evidence that he is prepared

to admit that a very substantial degree of wear and tear can be restored by current maintenance. If Mr. Macdonald's evidence is examined it will be seen that he intended to infer no more than this.

Mr. Thompson admitted, on cross-examination, that maintenance might affect the service life, and I submit that the evidence of Messrs. Thompson and Glassco was given on a purely theoretical basis as to depreciation generally and was not realistic in that it did not take into account the high standard of the maintenance of the C.P.R.

Mr. Newman also admitted that a good standard of maintenance would prolong service life. Mr. Crump also supported this position.

In addition to the foregoing, Mr. MacPherson in his cross-examination of Mr. Newman and also in the cross-examination of other witnesses, quoted from the evidence of Messrs. Hungerford and Cooper before the House of Commons Committee in 1940, as follows:

> "*Mr. Hungerford:* There is really no definite life for a piece of equipment. . . . I have personally seen a locomotive in service that was a hundred years old . . . Units of equipment are generally retired because of obsolescence and owing to changed conditions, are no longer suitable for the purpose or economical to operate, and they are retired on that account. But you understand that a car or a locomotive is taken into the repair shops periodically and put through a general repair. When they come out they are substantially new; every part that is defective has been replaced, and to all intents and purposes, the machine is as good as when it was built new. That process goes on year after year, so it is quite conceivable that at the end of thirty-five or forty years there is practically nothing of the original unit left; all of the parts have been replaced at the expense of operating expenses.
>
> Q. Will a recently constructed car have a life of 34 years?
>
> *Mr. Cooper:* Yes it would probably exceed that. As a matter of fact, the modern car can be continued almost indefinitely; you can renew different parts of it. From time to time you can put on new trucks, new tops, new brakes, and, so long as the car is suitable for the traffic, the type of car does not become obsolete. By renewing parts I think you can renew a car and keep it in service indefinitely?"

Further, in Mr. Glassco's cross-examination there is a reference to the Accountants' Handbook reading as follows:

> "The intimate relation between depreciation and maintenance is well stated by Cole in 'Fundamentals of Accounting'. 'So far as cost is concerned,' this authority points out, 'there is no difference between depreciation and maintenance. Maintenance consists of repairs and replacements which, as far as they go, offset depreciation'. In railway and other public utility circles there is quite a marked tendency to view depreciation and maintenance as a single, clear-cut element."

Now, I submit, there is also further support to the position we take, in the letter of Mr. Neal to Mr. Leslie. He refers to depreciation and maintenance on an overall percentage and that is further evidence that they are regarded as two aspects of one subject.

It is submitted that on the balance of the evidence it is a fair proposition to state that a high standard of current maintenance will substantially lengthen service life. This applies, with as much and perhaps even with greater measure, to road and structures as to equipment.

Depreciation of Way and Structures

Until mid-1942 the C.P.R. followed the policy of renewal or replacement accounting as to both depreciable and non-depreciable road. While the C.P.R. adopted depreciation accounting with respect to road, the C.N.R. did not do so, and it was only adopted in the United States six months after its adoption by the C.P.R. Mr. Macdonald in his evidence in chief raised the question as to the propriety of depreciation accounting in a railway as long established as the C.P.R. There was considerable misunderstanding in connection with this.

In the first place, certain answers which had been given in my cross-examination of Mr. Liddy led everyone on the respondents' side to believe that so far as equipment and road were concerned, retiral accounting had been adopted in 1929. We were evidently wrong in this because that matter was corrected, and it was made clear that replacement accounting was followed continuously through until mid-1942 with regard to Way and Structures.

Mr. May said in his book, and I would like to quote this as the only thing I am going to say on this point:

> "Where property has a probable useful life considerably exceeding 25 years, it is less defensible"

that is depreciation:

> "and when the unexpired life is 50 years or more, a provision for depreciation on a straight line basis, or perhaps on any basis, is theoretical and unrealistic."

Those are words in cold print of Mr. May's.

A pertinent question at this point is as to whether or not Road as a whole can have a terminable useful life. The C.P.R. divides Road into two sections, depreciable and non-depreciable. The structures generally speaking are considered depreciable; the rails, ties, and ballast, etc. non-depreciable. A bridge is a good example of depreciable road, rail of non-depreciable. The bridge is as necessary to carry the traffic as the rail, the only difference is that the bridge has a longer life. Mr. May is of the opinion that assets with a longer life than a generation in a mature road should not be subject to depreciation. This seems sensible. There is no essential difference between a bridge and a rail. The theory on rail is that it is restored through current maintenance, but it is, of course, replaced at the end of its useful life and there is a charge made. The same principle applies in exactly the same way to a bridge, excepting that the life is longer and that its life is capable of prolongation through maintenance.

The C.P.R. is at maturity, according to Mr. Liddy, but Mr. May did not agree with that. It therefore follows that renewals will keep the bridges as a group at operating efficiency and that these renewals can be pro-

grammed over the years so that no unduly heavy charge comes in any one year. This is equally true of rail. Renewals of rail are charged to operating expense. Why should not the same principle be applied to bridges and thus to road as a whole? Road has really no termination to its useful life excepting through abandonment. Its life is perpetual and it is restored by current maintenance and by renewal, which are the same thing. That its life is perpetual is proved by the fact that many of the leased roads are held on leases which are perpetual and it is doubtful if any retirements of any consequence ever take place except through abandonment. In the case of abandonments, the C.P.R. with propriety treats this as a non-operating charge against profit and loss and not against railway earnings. There would seem to be grave doubt as to whether or not a depreciation reserve for road serves any useful purpose.

Four methods have emerged from the evidence for recovering the cost of road out of earnings, i.e., retirement accounting, replacement accounting, straight line depreciation and the user method of accounting for depreciation.

I suggest, with respect, that the Board should carefully review the result of the four methods.

1. *Retirement*

A proper charge to 1947 under the retirement accounting method can be approximated from the retirements of depreciable road for past years, and that averaged $1,482,000, for the period 1936 to 1946, inclusive. Consideration should also be given to C.N.R. retirements which, for Canadian lines only, are as follows:

1946	$1,363,000
1945	1,197,000

These figures of course, include depreciable as well as non-depreciable road. The C.N.R. operates one-third more mileage than the C.P.R. It would appear from C.P.R. and C.N.R. past retirements that 1947 might average not more than $1.5 million in 1947 for each road.

2. *Replacement*

A fairly accurate estimate of a proper charge to 1947 under the Replacement method may be made from the amount of past retirements of depreciable road. It may be assumed that the cost of replacement as compared with the cost of retirement may run 2 to 1.

It would appear, therefore, that the C.P.R. is entitled to perhaps $2.5 to $3 million as an allowance for replacement of depreciable road in 1947, i.e., twice the $1.5 million for retirements.

3. *Straight Line Method of Depreciation*

The C.P.R. as shown in evidence, computed the life of depreciable road property at 70 years. This is confirmed through Mr. Thompson. On this life expectancy, the annual charge on the straight-line basis for depreciation should be 1.42% of the depreciable portion of the road account as at January 1st, 1947, i.e., 1.42% of $304.2 million or $4.3 million. This is calculated, of course, without taking salvage into account.

4. *User Method of Depreciation*

The C.P.R. estimate for 1947 depreciation, on the user basis, is $5.645 million. The increase in actual traffic during 1947 over that estimated by the C.P.R. will increase this $5.645 million on the user basis to over $6 million, as a charge with regard to depreciable road in the year 1947.

I submit with respect, Mr. Chief Commissioner, that the difference in result of these four methods commands the most careful consideration of the Board.

They may compare as follows:

On the retirement accounting method, say $1.5 million.

On the replacement accounting method, $2.5 to $3 million.

On straight line depreciation accounting, $4.3 million.

On the user theory as applied by the C.P.R., over $6 million.

I think there is something to be said in favour of replacement accounting for Road.

(a) The "snowball" effect on the road property account would be stopped. In other words, if it were charged to earnings as a replacement, it would not be added to the asset account, because the users have already paid for it.

(b) The $200 million, which Mr. Liddy said should be brought back, would be eliminated from the rate base, because it has already been charged.

(c) The C.P.R. would be encouraged to maintain an efficient Road asset, necessary to the economy of the country.

(d) Perhaps most important of all, if depreciation reserves are allowed for road, renewals will continue to be paid by the shipper under guise of repairs, *plus* any depreciation provisions allowed, thus producing a double charge to operating. In other words, there will be a charge for depreciation on road and renewals will continue to be made as a charge to maintenance. I submit that if that happens that is a double charge to the shipper.

Looking at the other side of the picture, there are two points in favour of depreciation accounting for road, as against renewal or retirement accounting which I mention at this time:

1. Replacement accounting for rate making purposes, like the user method of depreciation, is not easily policed. Like maintenance expenses generally the level of renewals-retirements in any one year, or short period of years, can be geared by management to its own fiscal policy resulting in distortion of true operating results. However, reviewed over a long period, this distortion will disappear.

2. There is considerable merit in having uniformity of accounting with other railways on this continent, that is, uniformity with the American railways which are on straight line depreciation with respect to roads.

5. *Submission re Depreciation for Way and Structures*

On the evidence as I have outlined it, Mr. Chief Commissioner, it would appear that no substantial justification exists for a change in policy in respect of Maintenance of Way and Structures accounting from that in existence when rates were set in the past and I submit that the result of the replacement accounting method in 1947, a charge of \$2½ to \$3 million should be used by this Board for assessing C.P.R. financial need for the year 1947.

Depreciation of Shop and Power Plant Machinery

What has been said to this point relates to the depreciable portion of road property in general. Shop and power plant machinery is included as part of that item but it attracts a different rate of depreciation and the charge is separate.

Mr. MacDonald in his evidence dealt extensively with the C.P.R. practice in connection with depreciation on the user basis of shop and power plant machinery. In his view it was significant that the application of the user basis produced an absurd service life for this type of equipment. It is submitted that he is confirmed in this by the comparison with the United States service life as shown by Mr. Thompson. Mr. Thompson sought to minimize, by his evidence relating thereto, the significance of the charges with respect to shop and power plant machinery, but it is submitted that this may well be indicative of the effect of the user basis and substantiates our contention that substantially higher than proper charges are being made throughout.

In the eleven year period 1936 to 1946 the average annual retirements, i.e., gross without salvage, amounted only to \$230,000. On the straight line basis of a 40-year life, this would have a depreciation rate of 2½%. The depreciable asset of \$14,200,000 at January 1st, 1947, at the 2½% rate would have an annual depreciation accrual of \$355,000. However, the C.P.R. have provided for an annual charge of \$1,613,000 for the year 1947 and it will now be increased by approximately 10% to \$1,750,000. That amount is greater by \$1,380,000 than the average annual retirements for the past eleven years and \$1,250,000 more than the straight line depreciation charge. It would appear to me to be proper for the Board to use the straight line depreciation result of \$355,000 for 1947.

The point in dealing, as we have in evidence and in argument, with shop and power plant machinery has been to show just what can be done under the user basis when the rate is too high. In this case it is demonstrated to be absurdly high. For, as shown above, the C.P.R. is producing five times the annual charge that would be produced on the service life as shown by Mr. Thompson.

We were fortunate in having sufficient details for study of the shop and power plant machinery account. Details with respect to road and rolling stock were denied us. It is our contention that a full examination of these accounts will confirm very substantial over-charges which I will refer to later.

Depreciation of Inland Steamships

In connection with these Mr. Mcadonald produced evidence to show the asset value at January 1, 1947, to be $2.6 million with a reserve of $2.3 million. On the basis of the salvage rate taken by Mr. Macdonald there has been over-depreciation. Whatever may be the proper amount of salvage it is quite clear from Mr. Thompson's evidence that these assets are now fully depreciated. It is difficult to believe that the annual charge of $127,000, small and all as it may be, was provided at the beginning of 1947 merely on the assumption that other assets might be purchased.

Mr. Thompson stated that depreciation on inland steamships has been discontinued as of August 1, 1947. As a matter of fair comment it is significant that this action was taken during the course of this enquiry and coincident with Mr. Macdonald's testimony.

Having regard to the fact that the steamships are very old, at least 30 years old, and are still in service and probably will be in service for a number of years, it is obvious that a 5% rate was not realistic and a 2½% rate was probably more closely in accord with the actual service life. When the 5% rate was set in 1940 all of the steamers being over 20 years old, the rate was obviously double what it should have been and by 1935 there should have been, at the 5% rate, a 100% reserve and hence no depreciation charged at all in 1947. In this case the remarks made with respect to shop and power plant machinery are equally applicable. Here again the effects of a higher than proper rate are clear.

Depreciation of Rolling Stock

With respect to depreciation on rolling stock, the C.P.R. for the year 1947 on the user basis, estimated a charge for depreciation of $13.9 millions.

Mr. Macdonald produced evidence dealing with charges made for rolling stock renewals, retirals and depreciation as follows:

Average 1920-29 (renewals) $5.5 million or 2.8% of gross revenue.

Average 1930-39 (retirals) $3.6 million or 2.6% of gross revenue.

Average 1940-46 (depreciation) $13.6 million or 5.1% of gross revenue.

The exhibit was violently attacked by Messrs. Thompson and Glassco, particularly the percentages. However, both Mr. Thompson and Mr. Glassco were forced to admit that the dollar figures were comparable.

Service Life of C.P.R. Rolling Stock

Mr. Macdonald in his evidence, developed the matter of depreciation on the straight line basis in relation to C.P.R. equipment. This gave rise to a question of service life. Applying the 50% rule, i.e., twice the average age of equipment in service at January 1, 1940, to determine an annual rate, this, on a straight line basis, produced an annual charge for the year 1947 of $7.9 million only as against the charge of $13.9 million estimated for 1947 by the C.P.R. on the user basis.

The application of this test to C.P.R. equipment was vigorously attacked. The test is a simple one, and as applied on equipment in service at January 1, 1940, it produced results which Mr. Macdonald admitted to be severe.

The figure of a straight line depreciation computed on this basis was used as a minimum figure. It is not a "rule"; it is merely a test, the import of which is obvious on the face of it, despite what has been said about it.

On the basis of this 50% rule, Mr. Macdonald calculated that service lives of C.P.R. equipment in use on January 1, 1940, would be: locomotives 50 years, freight cars 40 years, passenger cars 45 years. Admitting the severity of this yardstick it is apparent that C.P.R. experience gives considerable support to those figures. Examples which can be given are as follows:

1. The N2 locomotive, built in 1909 and rebuilt in 1946-47 after 38 years of life, presumably in anticipation of another 10 years.

2. 42,000 of the 75,000 freight cars in service on January 1, 1940, were more than 25 years old. Even allowing for the bulge in buying 1909 to 1914, this goes a long way to support the 40-year life used by Mr. Macdonald in his evidence.

Editorial Note:

At this point Mr. McLean dealt at some length with the details of evidence regarding service life of C.P.R. rolling stock. After this review he proceeded as follows:

The service life for depreciation purposes is the length of time that the asset is carried on the books of the company at original cost plus improvements. Looking at the exhibits it must be evident that C.P.R. equipment—certainly to date—has a long service life. This matter of service life was the subject of a great deal of evidence and lengthy discussion.

It is submitted that past experience is the only reliable guide upon which to set a depreciation rate. The various service life figures which have been submitted in evidence are as follows:

Service Life of Rolling Stock (in Years)

	Locomotives	Freight Cars	Passenger Cars
Mr. O'Brien—C.P.R.	35	28	34
Mr. Liddy—C.P.R.	35	30	29
Units retired, 1940-1946	36	31	40
Mr. Gracey—C.N.R.	35	34	40

In addition to the foregoing the following average age of equipment still in service may be some guide:

As at Jan. 1, 1940, C.P.R.	26	20½	23½
As at Jan. 1, 1947, C.P.R.	27½	23½	29
As at Jan. 1, 1947, C.N.R.	28	19	27

I have a word or two to say about these tables. A study of service life for passenger cars alone reveals the following facts: Mr. O'Brien estimated

service life at 34 years. Mr. Liddy, insisted that 29 years was proper. The units retired as at January 1st, 1947, showed: passenger cars, 40 years. The C.N.R. says that 40 years was the average age. The C.P.R. says that its passenger cars in service had an average age of 29 years.

The C.P.R. authorized the purchase of 36 cars in 1947, but only 20 were ordered so far. There are 2,692 in service. To replace the present passenger cars at the rate of ordering in 1946 and 1947 it will take not 29 years, or 34 years or 40 years, but 75 years to 100 years to replace the existing equipment.

I say with deference, Mr. Chief Commissioner, that the 34 years service life of Mr. O'Brien is the minimum basis as a reliable guide of past experience; and that Mr. Liddy's 29 years is not a realistic approach.

In this connection it is also to be remembered that 1081 of the passenger cars out of 2,692 in service at January 1st, 1947, were then 34 years old. It is obvious that the Canadian Pacific's railway experience of passenger cars to be retired in the years following the present cannot but show an age far in excess of that set by Mr. O'Brien, namely, 34 years.

With regard to the service life for freight cars, Mr. O'Brien said 28 years. Mr. Liddy said 30 years. Units retired in the seven years prior to January 1st, 1947, show 31 years. The C.N.R. show a service life of 34 years. The average of freight cars in service, as at January 1st, 1947, in the case of C.P.R., is 23½ years, and in the case of the C.N.R. it is only 19 years.

Obviously Mr. O'Brien's service life is below the experience of his own road, and I submit that it is too low.

In connection with this matter, and before I leave freight cars, it must be remembered that at January 1st, 1946, the percentage of freight cars on United States roads, in the two main regions, which were over 26 years of age, was 16% and 18%. The C.P.R. shows 52%. Further, as at January 1st, 1947, 50% of the total of C.P.R. freight cars were over 28 years of age.

In the case of locomotives the thirty-five year life is apparently supported by Mr. Liddy and by the C.N.R. experience, by Mr. O'Brien and by the experience of 1940 to 1947. But it should be noted that there are still 640 locomotives out of 1,785 in service which are now over 35 years old, and if we assume the rate of renewal for 1946 and 1947 envisaged in the C.P.R. annual reports at only 34 per annum, the average age of locomotives to come out of service in the ensuing years cannot but exceed the 35 year figure. In other words that evidence, I submit, establishes that locomotives coming out of service for the next period of time will exceed the 35 year life by a considerable amount.

Depreciation Rate

Turning to the question of the propriety of the depreciation rates, we see that there are certain over-all tests which may be applied.

In the first place there is the test of total past accrued depreciation. As at 1940 the evidence submitted by the respondents was that this was

$150 million for equipment only. Adding to this, accruals for the seven year period ending in 1946 and deducting retirals in the same period the reserve would be $225 million as of January 1st, 1947. The rolling stock asset as of that date was $364 million or reduced by salvage of 7½ per cent it would be $337 million. Thus the reserve is only $112 million short of totality. That is after making allowance for salvage, which is admittedly proper. If the present depreciation policy continues to provide $14 million per annum, that is the 1947 estimate, (or $15.4 million if you assume the higher tonnage which will likely eventuate) the whole of the present rolling stock asset will be fully depreciated by early in 1954. It follows that it is the intention, if present traffic holds, to replace all of the present rolling stock by that date.

If that is so, this would mean the purchase within the next seven years of sufficient new equipment to retire the whole equipment inventory, that is 1,785, locomotives or 255 per annum; 74,329 freight cars or 10,600 per annum, 2,692 passenger cars or 380 per annum. Now compare the figures that I have given, even reduced, with 1947 buying program. There were 13 locomotives, all Diesel switchers, there were about 5,000 freight cars and only 26 passenger cars.

Even if traffic does not stay at 1947 levels until 1955 it is a fair assumption that traffic volume will be higher than the 1940 level, and therefore totality will be reached in perhaps ten or twelve years. Even cutting the foregoing figures by the addition of five years, I think the situation must be quite apparent.

In the second place, if you take the 80 per cent rule applied by the Income Tax Department, this means that of the $364 million rolling stock asset only $292 million should be allowed as a reserve. Given no renewals, that point would be reached in 4½ years at the 1947 rate of charge. Even if you extend that again it is apparent that the situation is somewhat absurd.

The third test is the comparison with the United States roads. These roads have had rolling stock depreciation since 1914. The percentage of reserve to gross assets is running about 50 per cent and has shown that consistently since 1939.

If the C.P.R. had set up 50 per cent in 1940, that is $150 million accrued depreciation, its reserves would now be $225 million, which is 62 per cent of the gross asset value as compared with the 50 per cent observed in connection with American roads as late as December 31, 1945.

We say, Mr. Chief Commissioner, that the application of those tests establishes that the rates in use since 1940 in the C.P.R. are higher than proper. The C.P.R. witnesses sought to explain away the facts but we say, having regard to the rate established in 1940, that service life was not properly taken into account in computing the rate, and that is our complaint.

User Basis for Calculating Depreciation

I made earlier a reference to the method used by the C.P.R. when in 1940 and 1942 it adopted depreciation accounting. I submit that the

evidence of Mr. Macdonald on that point, may be summarized by saying that in his opinion the user basis:

First, placed too great emphasis on the use factor in depreciation.

Second, while the user basis is flexible from a corporate financial point of view, we submit that it is not a proper basis for rate making, particularly when applied to one year of relatively high use, such as 1947.

Third, as adopted by the C.P.R. in 1940 it appears that the rate applied was too high, having regard to the experience of the service life of equipment, and that there is not sufficient data to test the propriety of the rate.

Fourth, there is the question of the user basis not being automatically adjusted to changes in inventory value. Mr. Glassco in his evidence pointed out very clearly that on the user basis, because of this factor, it would have to be reviewed constantly.

Without going into the evidence there is no question that Messrs. May, Thompson and Glassco gave opinion evidence in support of the user method. That is apparent on the record. But Mr. Glassco was forced into this position, namely, that the C.P.R. should be permitted to fix its own depreciation rates, that it was to be trusted to do so.

While much of what I have said on the user basis primarily had reference to depreciation of equipment and on theory there may be something to be said for the user basis if it can be practically worked out and administered with a reasonable backlog of experience to justify the rate, when one applies this to road of the character of the C.P.R., I think one must inevitably reach the conclusion that it is a highly artificial system and quite unrelated to the useful life of the road.

Without attempting to review the whole of the evidence with respect to the user basis for depreciation, whether applied to equipment or to road, I think it can be properly said that notwithstanding the sharp differences of opinion between the witnesses, certain facts emerge which cannot be controverted.

1. The propriety of any depreciation charge is dependent upon the proper rate being established, i.e., the service life must be determined as accurately as possible.

2. Beyond the test used in Exhibits 130 and 342, to evaluate the average life expectancy of C.P.R. equipment as indicated by depreciation rates and the statement of Mr. Liddy as to the propriety of the rate, this Board has no evidence and has no substantial means of testing the propriety of the rate. Messrs. Thompson, Glassco and May had to accept Mr. Liddy's evidence on this. They talked merely of the theory. Exhibits 130 and 342 are at best ex post facto attempts to justify the rate, and certainly if the level of traffic continues at anything like the level of the last five or six years then the rate is much too high.

3. The user method does not automatically adjust itself to changing inventory values as does the straight line method.

4. Having regard to the service life of C.P.R. equipment, and experience is the only criterion, it would appear that the user rate established by the C.P.R. is excessive, at least as to passenger and freight cars, and probably as to locomotives as well, and it may be excessive as to other items.

5. Looked at from the point of view of a regulatory body, the user basis is not simple and easy to administer.

6. The user basis has not been adopted, insofar as the evidence disclosed, by any other railroad. It may be said to be largely in the experimental stage.

7. The user method produces a heavy charge in a year of heavy use, the charge fluctuating from year to year. While this may be desirable from a corporate view, I submit, it is not a proper basis for rate making, especially when its application is based on the experience of one year.

8. There is no evidence that any such system has been adopted by taxing authorities in this country; depreciation due to accelerated use has been allowed but not on the scale contemplated by the user basis.

9. Insofar as the records show, no other regulatory body dealing with railways or utilities has based its regulation on this system.

Mr. Macdonald made a computation on the straight line basis, using Mr. O'Brien's service lives. This showed an annual depreciation on the straight line basis, in the amount of $11,100,000 as against the estimate of the C.P.R. on a user basis of $13,908,000. With the higher tonnage that 1947 figure would be $15 million.

Then there was the computation on the 50 per cent test which would have shown on straight line basis, using that as a service life, a charge of $7.9 million. We admit that is very severe.

In one case there was a difference of over $6 million; in the other $2.8 million on the 1947 estimate of traffic.

Submissions

Arising out of the foregoing submissions I have certain points to make; it seems that there are four questions:

1. Is it proper to allow, in fixing rates, a depreciation charge?

2. Is the user basis proper in the case of the C.P.R.?

3. If the user basis is not proper, what is the proper basis?

4. What depreciation or other charges are proper for 1947 for rate purposes?

As to questions 1 to 3 which I have just posed, we submit as follows: *as to road:* the C.P.R. carried on for over 60 years without depreciation accounting. While there may be room for considerable legitimate

difference of opinion, it would appear that no substantial justification has been made for a change in the policy made in 1942.

as to shop and power plant machinery: it would appear to us and we so submit, that it would be proper to allow straight-line depreciation.

as to inland steamships: as there is no further depreciation required, it is not necessary to say anything.

as to rolling stock: it would appear that the straight line depreciation method is the only practical method for rate making purposes.

As to question No. 4, viz. the quantum of charges for 1947, for rate purposes, our submissions are as follows:

> I have already stated that it is our view that the result of the replacement accounting method for ways and structures will result in a charge of $2,500,000 to $3,000,000 instead of the C.P.R. charge on the user basis of over $6,000,000. And we submit that if that method is followed a maximum of $3,000,000 would be a proper charge.
>
> For shop and Power Plant machinery, the result of straight line depreciation would be $355,000 instead of the C.P.R. charge on the user basis of $1,613,000 plus the heavier 1947 traffic which would bring that up to $1,750,000.
>
> As I have said, no charge is justified for inland steamships. In respect to rolling stock depreciation on the straight line method and accepting Mr. O'Brien's service lives, would produce a charge of $11,100,000. The C.P.R. on the user basis, have sought to charge $13,908,000 on the estimate for 1947, or over $15,000,000 on the basis of actual 1947 traffic. The proper charge would appear to be somewhere in the neighborhood of $11,100,000.

It is our submission that the total amount to be allowed to the C.P.R. for the purpose of depreciation for the year 1947 should not exceed $14,-000,000. The present accounting system would produce an amount exceeding $21,000,000 on the basis of the volume of traffic for 1947 as estimated by the C.P.R. However, when calculated on the basis of actual volume of traffic for 1947 this amount would exceed $23,000,000. We submit that those charges are not justified for rate-making purposes.

Chapter IV

MAINTENANCE

Having dealt with the matter of depreciation charges which are annual charges made to maintenance account, the next point to be considered is the total of maintenance expenses. It is not my intention to make a detailed argument with respect to maintenance expenses. Having regard to the division of the case between Mr. McPherson and myself, he has dealt with these in detail.

In Exhibit 22 the C.P.R. estimate for these items of expense, excluding annual depreciation charges, was as follows: Maintenance of Way and Structures for 1947 was $49,837,000 and Maintenance of Equipment was $44,419,000.

A good deal of evidence was introduced on this subject. In that connection the railway introduced a very important exhibit, namely Exhibit 116, entitled "Effect on 1947 Operating Expenses of Increases in Wages and Material Prices since 1939." Summarized, the contention of the C.P.R., as indicated by the evidence, was that due to: the necessity of bringing up the standard of maintenance and of keeping up the standard; the increased cost of wages and materials; and the heavier traffic, these charges for maintenance were justified.

The respondents, Manitoba and Saskatchewan, have joined issue squarely with the C.P.R. on the level of these expenses. The C.P.R. by Exhibit 116 and other exhibits and evidence made 1939 the basic year of comparison, as to costs at least, and this was of necessity used by the respondents.

Mr. Macdonald prepared and produced evidence, which, as submitted, establishes clearly that maintenance levels as measured by dollars bear a very close relationship to revenue percentage-wise, and that these levels are very largely controllable by management. Mr. Macdonald expressed this opinion in these words:

> "It is observable that there is a reasonably close relationship as between expenditures for maintenance of way and structures and maintenance of equipment, in their relationship to gross revenue."
>
> Again he said:
>
> "In my pinion it is safe to say that to a substantial extent, a relatively substantial extent, maintenance of way expenses are flexible, and that the total per annum is, generally speaking, geared to revenues, to gross earnings, percentage-wise, on the C.P.R. policy."

It is submitted that the evidence establishes that when revenue levels are high maintenance costs go up accordingly and that when revenues fall, maintenance costs are cut, and we have evidence of the cuts in 1946 and 1947.

Mr. Thompson in rebuttal was first disinclined to agree with Mr. Macdonald's opinion that there was an inter-relationship between revenue

and maintenance expenses and that this was largely within the control of financial management. However, under cross-examination he did admit that railway management could control maintenance expenditures.

The C.P.R. witnesses maintained that 1947 levels of maintenance, although substantially above 1939, were proper levels. In that connection I would like to refer to the evidence given by the C.P.R. before the Senate Committee on Railway in 1938. You will recall that when Sir Edward Beatty, then President of the C.P.R., was asked:

"Would you discuss the prospects for the future on the assumption there is no intervention by parliament?"

This was his answer:

"I take a rather optimistic view of my company's prospects because of the way it has weathered the storm of the last few years. I expressed that to my shareholders at the annual meeting on May 4 [1938]. This is the way I put it: 'Your well located, well constructed, and well maintained properties are in condition to ensure efficient and modern transportation service for the nation'."

When he appeared before the same Committee at the same time, Mr. J. E. Armstrong, Chief Engineer of the C.P.R. was asked:

"Mr. Armstrong, would this be a fair question? In view of these economies is the standard of our railways and our rails as high now in 1937 as it was in 1930?"

And this was his answer:

"I should say on the average practically so. I believe for the Canadian Pacific our chief lack is for paint on some of our wooden structures."

It is our submission, without reviewing further the evidence, that in view of:

(1) the opinion of Messrs. Beatty and Armstrong as to maintenance standards in or about 1938;

(2) the capacity of the railways at the outbreak of war and throughout the war to carry freight traffic;

(3) the ability of management to control the quantum spent on maintenance; and

(4) the C.P.R.'s using 1939 as a comparative year,

we were in the position of properly using 1939 maintenance levels for a comparison with the year 1947.

Mr. Macdonald, in order to compare 1939 maintenance with 1947 levels, was under the necessity of raising the 1939 expenditures to take into account first the increased cost of wages and materials, and second the increased traffic volume. To do this he prepared two tables.

The first of these tables relates to equipment maintenance expenses in 1939 compared with 1947. The level for 1939 was raised for increased costs of wages and materials and then increased for traffic volume. It is

submitted that an examination of this table shows that in 1947 the C.P.R. proposed to charge $12.5 million more for maintenance of equipment than in 1939, after proper allowance for increased traffic and for increased cost levels.

The second table relates to maintenance of way and structures expenses in 1939 compared with 1947. It is readily apparent from this table that in 1947 the C.P.R. has provided $21.1 million more for maintenance of way and structures than in 1939, after proper allowance for increased traffic and for increased cost levels.

In other words, in total for these two types of maintenance the C.P.R. provided $33.6 million more for 1947 maintenance than it would have cost to have given them the level of maintenance that was provided in 1939.

I refer here to another point somewhat parenthetically. In addition to the foregoing differences between expenditure levels for maintenance 1947 versus 1939, attention is directed to the fact that the C.P.R. accumulated during the war years the sum of $25.2 million plus interest for deferred maintenance. None of this has been brought to account by the C.P.R.

While Mr. Macdonald was vigorously attacked on his basis of comparison there was no evidence directed in reply to attacking the fundamentals of his computation. Mr. Thompson in his reply, however, did introduce evidence designed to contradict Mr. Macdonald, but if his cross-examination by Mr. MacPherson is examined, it will be seen, I submit, that his evidence does not detract from the evidence of Mr. Macdonald.

At the outset of his evidence, Mr. Thompson referred to Mr. Macdonald's method in his tables as follows:

> "I am of the opinion that Mr. Macdonald's method is unnecessarily complicated and results in substantial error."

One error he attributed to Mr. Macdonald was the attempt to compare 1939 with 1947 because of the difference in revenue levels, and without giving effect to the suggestion that maintenance is geared by management to revenue and that inferentially the control level is 15 per cent of gross revenues for maintenance of way. Our position is this, not that it must necessarily be geared, but that in fact it is geared. And we further say on this point that because of the experience of many past years and because of the evidence submitted, management can, in a large measure, control the level.

The second error Mr. Thompson attributed to Mr. Macdonald was an attempt to make a comparison on a base year. The only percentages which were available to us to indicate the increases in C.P.R. costs for wages and materials were based on 1939, and that was our reason for using that year. But it is to be noted that although Mr. Thompson described his as the simpler method, he still went back to 1939.

When Mr. Thompson was cross-examined he was compelled to recede from the position that Mr. Macdonald's method resulted in error. He then said: "I simply used a different method."

In his evidence, Mr. Thompson reduced 1947 estimated expenditures to 1939 cost levels. To do this he took the figure of $55.5 million appearing in Exhibit 22 as the estimate of expenditures in 1947 for maintenance of way and structures, including depreciation, and deducted the depreciation provision of $5.6 million. That gave him an estimate for cash expenditures on maintenance of way and structures in 1947 of $49.9 million. Expressed in 1939 cost levels he said that in 1947, $34 million could provide the same level of maintenance.

Applying the same method to maintenance of equipment he arrived at the figure of $31.9 million as representing the amount which would have been necessary at 1939 cost levels to provide the amount of maintenance represented by the $44.4 million estimated for cash expenditures on maintenance of equipment in 1947.

It is instructive to compare the foregoing figures of Mr. Thompson with the actual expenditures on maintenance made in 1939. In the case of equipment the comparable figure for 1939 cash expenditures on maintenance is $21.3 million. In the case of way and structures the only figure available is $19.5 million which includes cash expenditures on maintenance as well as expenditures on renewals. Consequently that figure is properly comparable with Mr. Thompson's figure of $34.0 million for cash expenditures, on maintenance of way and structures plus the $5.6 million provided for depreciation of way and structures. In tabular form the comparisons are:

Maintenance Expenses
($ millions)

	Actual 1939 Expenditure	Mr. Thompson's estimate of 1947 expenditures reduced to 1939 levels of cost
Maintenance of Equipment	21.3	31.9
Maintenance of Way and Structures	19.5 (including renewals)	39.6 (including depreciation)
Total Maintenance Expenses	40.8	71.5

The actual 1939 expenditures, at 1939 costs and at the 1939 level of maintenance was $40.8 million. But expressed in Mr. Thompson's terms taking 1947 level of maintenance but reduced to 1939 level of costs it was $71.5 million. Mr. Thompson's exhibit can therefore be reduced to a suggestion that in terms of 1939 level of costs the 1947 level of maintenance charges is above the 1939 level by $30.7 million or 75 per cent.

While Mr. Thompson made this computation, he made no allowance for the difference in traffic volume as between 1939 and 1947. The evidence clearly establishes that this difference was not over 60 per cent. This difference in traffic volume accounts for about $12 million. This then should be deducted from Mr. Thompson's figure of $71.5 million, leaving approximately $59.5 million. This still leaves an unexplained difference of $18.7 million or 45.8%.

At this point there are two questions which should be considered in relation to maintenance.

(1) Have we established that the level of maintenance provided for 1947 is, as a matter of fact, at a higher level than the level obtaining in 1939?

(2) If the level of 1947 is higher than that of 1939, is the 1947 a proper level for use in setting a rate structure which will remain in effect for a considerable time?

With respect to Question No. 1, it is our submission that we have answered this in the affirmative.

There are only two possible points of attack in the computations which have been made. In the first place it might be argued that the percentage used to adjust for cost is incorrect, but in answer to this it should be pointed out that this was from information supplied by the C.P.R. itself and presumably represented accurate information which they had. Also, no evidence attacking these percentage figures was given in rebuttal. Mr. Thompson accepted them in making his computation.

The second point of attack is with respect to the percentage used to adjust for traffic volume. This is based on the Yager formula. Again it is important to note that no real attack was made upon this in evidence. It will be recalled particularly that the C.N.R. made use of this formula. Further with respect to this point, Mr. Macdonald, during his cross-examination referred to the formula expressed by Professor Jackman in his book, "Principles of Transportation". It is submitted that in comparison to the Jackman formulae, Mr. Macdonald's use of the Yager Formula is more than generous to the C.P.R.

It follows from the foregoing that it is quite clear that the level of maintenance in 1947, with all adjustments, is at a substantially higher level than that obtaining in 1939, and on the evidence, that difference is at least $33.6 million. We further submit that whatever the reason may be for raising this level it is within the competence of management of the C.P.R. to control that level of maintenance.

The second question to which I referred was whether or not this higher level was justified. We submit that it is not, for the following reasons:

1. It must be perfectly obvious that the railway is storing up maintenance and that capital or quasi-capital works are being executed and charged as maintenance. We submit that this is not proper for rate-making purposes. It may be proper for corporate purposes but it is not proper for rate making.

2. There is cogent evidence in the evidence of Sir Edward Beatty and Mr. Armstrong that they considered the 1939 level of maintenance was satisfactory;

3. Whatever may be said about the 1939 level of maintenance, it was sufficient to enable the C.P.R. to do a magnificent job during the war, with unprecedentedly high traffic levels.

4. Whatever may be the ideal of the engineering staff of the railway, it must be perfectly plain that this cannot necessarily constitute a sound basis for allowance of charges in a rate case. Surely the freight shippers should not be required to provide for a level of maintenance sufficient to enable the engineers to produce what they consider to be an ideal level of maintenance;

5. We therefore submit that this Board would not be justified in setting rates based on a level of maintenance higher than that obtaining in 1939.

Before I leave this question of maintenance, I think I should state clearly our position.

It is common knowledge in connection with corporate practices that there is pressure to charge against income everything in the way of working expenses that it is possible to do. This is an advantage from an income tax point of view. It is also an advantage from the point of view of management in that it improves the physical assets of the corporation without any increase in capital debt. When you have a period of high taxes and high volume, with a big increase in expenses which are not explained in terms of high cost or high traffic volume, I submit that there is a strong inference that the practice is being followed of charging more than is necessary in that particular year, and that is so common in income tax cases and it is so common in financial management that I think it should be a matter of "judicial notice".

Chapter V

OVERALL FINANCIAL NEED

Much evidence was led with respect to the matter of overall financial need and I propose to deal with several aspects of it. With respect to income taxes, fixed charges and dividends, we take the position that it is unfair and unjust that they should all be met out of railway operations. Other counsel for the respondents are dealing with this matter in argument so I do not propose to burden the Board at this time with much argument. I adopt the arguments of other counsel for the respondents.

Additions and Betterments

Concerning "Additions and Betterments", the item of $15,235,000, included in Exhibit 22, I submit that these are not a proper charge to current railway operations.

First of all, these are unquestionably capital expenditures. Mr. Liddy finally admitted that. Also, Mr. Thompson, during cross-examination made it quite clear that in his opinion, they are capital expenditures. It follows, therefore, that if this item is included, the users of the railway are being asked to pay rates which will provide a surplus of income in each and every year of $15 million for what we call "Capital Expenditures".

While there are undoubtedly some decisions of this Board which support the position that the rate level should be such as to provide a surplus of income for this purpose, there are certain points which should not be overlooked. In connection with this matter I cross-examined Mr. Liddy at length. The example under consideration concerned a locomotive which had cost $50,000 and which was to be replaced at a time when prices and costs had risen so that a new, equally useful locomotive would have cost $100,000. Mr. Liddy suggested that the increase of $50,000 due to increased costs should be provided out of additions and betterments.

In my cross-examination I developed that the result of this would be that the freight users would be charged twice for the additional $50,000 referred to above. First, $50,000 would be provided in this year as an addition and betterment. Second that $50,000 would be added to the Property and Investment Account and there would be charges for depreciation. So, in fact, they would have provided it twice by providing it this year as well as over the useful life through depreciation.

That is not the end of the matter. If it is added to the rate base then the $50,000 mentioned in this example, is added to the property account of the railway and goes to swell the rate base. If that is done the freight shippers have paid for it in additions and betterments and will be paying for it again over the useful life in the depreciation. Then, if it is also added to the rate base the railway will try to earn a rate of return on it.

Return on Investment

Considerable discussion took place with regard to the figure which represents the investment on which the C.P.R. claims that it is entitled to a return. This is what has been referred to as the "Rate Base". At the start the C.P.R. advanced the figure of $1,305 million but subsequently for the year 1947 it became $1,324 million. Mr. Macdonald in dealing with this gave items which totalled $550 million. Subtracting these from the figure of $1,324 million reduces, on Mr. Macdonald's evidence, the investment for rate base purposes to $775 million.

The first four items, Grants-In-Aid, Cost of donated road, $48 million added back to rolling stock inventory, and Land Sales, were the subject of considerable argument. Whatever may be the strictly legal position, it is our submission that the people of Canada, having provided this money, should not be required to pay rates which will give the shareholders a return on these donations.

The fifth item was the matter of "accrued depeciation" for rolling stock of $225 million and a minimum accrued depreciation of $75 million with respect to road.

Mr. Liddy took the view that this should not be deducted in determining the rate base. Mr. Macdonald included it in his list of items which should be deducted.

Mr. Macdonald's opinion is confirmed not only by the report of the National Association of Railroad and Utility Commissioners in the United States but also by the fact that in his evidence, Mr. Thompson calculated a rate base by deducting an item for accrued depreciation.

My submission is this. If a company starts out with $1 million invested in Capital Assets, on the principle of Depreciation over the useful life of those assets, it is entitled to put back in its pocket that $1 million. During the course of any number of years it puts back in its pocket 500,000 of those dollars. I submit that it must be perfectly obvious that, having got that money back, realized through earnings, it should not be entitled to say, "We are entitled to a return on something which we have had back."

It may be argued that they have reinvested some of that in their properties. I say that that is perfectly correct to the extent that you have reinvested, then you are entitled to take that into account in determining your rate base. But, after all, a reserve is only a net position and therefore that net position should be deducted from the Investment Account because that net position in the reserve are dollars which the company has had back in its pocket and has not reinvested. And, I submit, that is the basis upon which the American decisions proceeded, and that, I submit, finds support not only in the view of Mr. Macdonald but in the view of Mr. Thompson.

The sixth item which Mr. Macdonald subtracted was working capital, and I do not propose to discuss that.

Mr. Macdonald, with these deductions, arrived at a rate base of $775 million. Then Mr. Thompson made a computation and he arrived at his lower figure of $1,169 million.

One of Mr. Liddy's yardsticks, Exhibit 13, has been put in to show what a small return was being earned on C.P.R. investment.

As it will subsequently appear, our contention is that the proper estimated railway net earnings of the C.P.R. for 1947 are substantially in excess of the $14.8 million as shown in Exhibit 22. I will show in a moment, that revenue will be higher and expenses should be lower so that the total *railway earnings* should have been, on a proper basis, $62 million. If that is the correct figure then on the $775 million rate base, it would be 8 per cent, before tax, and even on Mr. Thompson's figure of $1,169 million as the rate base, it would give a rate of return of over 5 per cent before tax.

It has been established that since inception, the United States railroads have earned approximately 4 per cent on their investment. Having regard to the fixed charges which are deductible from taxable income of the Canadian Pacific Railway, it would appear that even the return of 5 percent, on Mr. Thompson's basis, before tax, would be about equivalent to 4 percent after tax.

C.P.R. Financial Reserves

I would now like to make reference to Exhibit 338 filed by Mr. Macdonald. Whatever criticisms, Mr. Chief Commissioner, may be directed as to the form of that exhibit, it was accepted that the figures shown in there correctly represented the true situation. That the exhibit can cause misunderstanding is claimed but whatever may be said, the figures are not susceptible of challenge. They came from the C.P.R. records. In the period covered by that exhibit, which is the six years, 1940 to 1946, it shows:

(1) That the Canadian Pacific Railway made expenditures on railroad property out of funds made available for all corporate operations, of $123 million.

(2) It invested out of this same common pot in lease lines, $11.5 million.

(3) It made out of such funds capital expenditures on steamships, hotels and communications, of approximately $18 million;

(4) It invested out of such funds in stocks and bonds of controlled and other companies and advanced to subsidiaries, approximately $20 million;

(5) It spent out of such funds for reorganization of the Soo Line, $7 million;

(6) It established out of such funds a steamship replacement fund of $39 million;

(7) It paid out of such funds interest of over $150 million;

(8) It paid out of such funds income tax, and other taxes, the sum of $120 million;

(9) It declared out of such funds dividends of approximately $91 million.

(10) It established out of such funds a deferred maintenance reserve of $25 million;

(11) Out of such funds it reduced debt by $157 million and has increased working capital by approximately $32 million and set aside $3.5 million in an insurance fund.

I am not here to argue this, Mr. Chief Commissioner, although I say that it is important that the total funds thus applied were some $800 million of which railway operations alone provided $562 million. But to return to my point, I do say that no one can come here and stand up and say that the situation of the railway company is dire or that it is precarious. I say and I submit that on the showing of 1947, there is no justification for any increase.

Mr. Pitblado, in opening for the railways, made the submission that reserves and surpluses built up in the past should not be taken into account in determining rates. Be that as it may, as I said, they cannot be brushed aside. They are an integral part of the corporate financial picture and must, if we are considering the financial picture, be considered. And further we say, Mr. Chief Commissioner, rates should not be set at such a level as to permit the continual piling up of reserves and surpluses. Those are for a purpose and should be so used. They should not be the main financial means of the company.

In the Ottawa Electric Case, this is said about "surpluses":

> "A surplus is an insurance fund which not only puts the business in a stronger position from the standpoint of necessary financing, but also assists in time of need, in the continuance of dividends."

That is the overall financial picture and we say that from 1940 to 1946 and into 1947 the picture is not a "dire" one.

C.P.R. 1947 Financial Results

The C.P.R. forecast, in its foundation Exhibit, Exhibit 22, that railway net earnings would be $14.8 million in 1947. To this must be added the income tax provision of $3.2 million to arrive at the income before tax. Thus on its own figures the Canadian Pacific Railway had anticipated $18 million of net earnings before tax.

It is our contention that the gross earnings of the Canadian Pacific Railway will be increased from $285.4 million to $317 million, an increase of $31.6 million. Obviously this increase will necessitate some increase in working expenses to carry the additional traffic, but it must be remembered that a portion of this comes, or will come, from factors which necessitate no additional expenditure for operating.

These factors include:

1. The increase in international rates;
2. Some increases in passenger fares and heavier than anticipated occupancy of passenger cars;

3. The increases due to the removal of control over the price of meals in dining cars and station restaurants operated by the Canadian Pacific Railway.

In his estimate made in July, Mr. Moffat estimated that freight earnings would increase by $26.2 million and he allowed the other earnings to stand at the figures in Exhibit 22. In regard to this increased traffic Mr. Macdonald computed that the increase in net earnings resulting therefrom would be some $11.5 million on the basis of the 1939 level of maintenance when raised to 1947 wage and material costs as estimated by the C.P.R.

Let us now turn to the $31.6 million increase in revenue over the C.P.R. estimate in Exhibit 22, as envisaged in our submission. On the basis of Mr. Macdonald's computation to which I referred, this would produce additional net railway income, excluding income tax, of approximately $14 million.

Moreover, we have submitted that there is a saving with respect to maintenance. With respect to maintenance of equipment, Mr. Macdonald's calculations showed a saving of $12.5 million. However, this was on the 1939 retiral basis. The retiral figure was $7.5 million; if the straight line depreciation were applied the figure would be $11.1 million, i.e., $3.6 million higher than on the retiral basis. This would mean that the saving of $12.5 million, reduced by the $3.6 million figure to allow for depreciation, would be only $8.9 million. However, maintenance of way and structures, on a renewal basis, the basis used in the table, showed a saving of $21.1 million, and we submit that the renewal basis is the proper basis in this case.

The total savings on maintenance would therefore be $30 million. This figure should be added to the C.P.R. figure of $18 million plus $14 million additional revenue, making the total $62 million of railway earnings for 1947.

We now come to "overall operations". If "Other Income", of $22 million is brought to account, this figure of $62 million should be raised to $84 million, available to the C.P.R. for payment of:

(a) fixed charges;

(b) income tax;

(c) dividends, and

(d) additions and betterments.

Fixed charges are $18 million. Income tax would be about $20 million. That would leave $46 million to pay dividends of $21.3 million and additions and betterments of $15.2 million.

The Canadian Pacific Railway is thus, on our contention, in a position to pay all of its dividends, all its fixed charges and provide all of the $15.2 million for additions and betterments, and leave a surplus of almost $10 million.

Having regard to the complexity of the foregoing, I am going to recapitulate in more or less tabular form, and I will express the amounts

in millions of dollars. If the Reporter will take this down in tabular form, I think you will see more clearly the argument which I am making.

C.P.R. Estimate of Gross Revenue	$285.4
C.P.R. Estimate of Gross Working Expenses	270.6
Net Railway Operating Income	14.8
Income Tax Added Back	3.2
	18.0
Net Additional Revenue over Estimate	14.0
	32.0
Savings on Maintenance Expenses	30.0
Net Railway Operating Income	62.0
Add: "Other Income"	22.0
	84.0
Deduct Fixed Charges	18.0
	66.0
Income Tax on Income properly Taxable	20.0
Available for Dividends, Additions and Betterments	$ 46.0

Dividends	$ 21.3
Additions and Betterments	15.2
	$ 36.5

That, of course, I frankly admit, Mr. Chief Commissioner, is based on the question of the propriety of the maintenance levels of 1939-1947, whether that saving can properly be made. I say that saving should be made. The whole computation and the ultimate result turns on that.

That concludes, Mr. Chief Commissioner, my submissions on the question of the financial case. We say that, whatever may be the validity of our contention as to quantum, there is within the scope of the financial management of the C.P.R., power to control expenses—working expenses. In 1939 they had a railway which operated efficiently and I have given the reasons for making that statement.

We have today high income taxes. We have an application pending wherein it is alleged that the situation is "dire" and "perilous" and I submit that the financial management could and should produce a much more favourable situation by these savings in working expenses.

Chapter VI

ECONOMIC EFFECTS OF THE PROPOSED INCREASE

If, notwithstanding the submission of Manitoba and the other provinces, this Board concludes that the C.P.R. requires some additional revenue, the question then arises as to how this is to be provided.

Before entering upon our submissions on this question, however, I desire to make some general observations which should be kept in mind in granting any rate increase.

During the course of the hearing of this application your Board held sittings in every one of the nine provinces of Canada. The fact that this program of regional hearings was undertaken is, I am sure, conclusive evidence that, in the mind of the Board, this problem is one which must be looked on as a national problem and one for which a solution must be sought on a national basis. The Government of the Province of Manitoba is strongly of the same opinion.

The increased cost of running the Canadian railway system has arisen directly out of the Canadian national war effort and the economic policies undertaken by Canada as a whole in the interests of the war effort. In applying for a 30% increase in freight rates the railways have based their whole case on the assertion that in order to cover increased wage bills and higher costs of materials used by them the railways of Canada must have additional revenue if they are to maintain their transportation service to the people of Canada. There is no need at this point to reiterate the fact that these increases in wages and material costs have arisen directly from the demands for labour and materials which have resulted from the the war and its aftermath. It is the whole of Canada which needs the railways, as it was the whole of Canada which was involved in and responsible for the war effort. The increased cost of running the Canadian railways was certainly not the result of the actions of any one group in Canada nor of the people of any one province or of any group of provinces. Clearly, therefore, it would be most unfair should this national burden be distributed in such a way that it will fall with undue weight upon any particular group of Canadians. If, in the judgment of this Board, the best interests of Canada require that additional revenue should be made available to the Canadian railways, I suggest to you that the most serious responsibility facing you is to see that this national burden is equitably and fairly distributed among the people of Canada.

Mr. Pitblado in his argument submitted that this was a revenue case, not a general freight rate enquiry. He mentioned the jurisdiction of the Board being that of fixing just and reasonable rates. He submitted, and I quote "that just and reasonable rates referred to in the statute are rates that must be just and reasonable to the railways to whom they are to be paid, and that unremunerative rates are unjust and unreasonable."

As I understand his argument it was that taking the foregoing two ideas together, namely:

1. that this was a revenue case only; and

2. that just and reasonable rates mean just and reasonable to the railways;

it followed that the jurisdiction of the Board because of the character of the application and the fact that it was made by the railways, was only to fix rates just and reasonable to the railways.

The foregoing is obviously not the jurisdiction of the Board. Having regard to the purposes for which the Railway Act was passed, it must be obvious that the first and prime consideration is just and reasonable rates for the people of Canada. Undoubtedly the railways are entitled to reasonable rates, but to suggest that because the railways require more revenue the other interests are to be cast aside on this application is quite unsound. This is of particular importance when considering the remedy, if any, to be granted on this application.

While Manitoba is primarily an agricultural province, it must not be overlooked that she is now becoming, amongst other things, a relatively important mining province. It will be recalled that at the regional hearing in Winnipeg, The Mid-West Metal Mining Association presented a very temperate and fair brief dealing with the situation.

Effect of Rate Increase on Agriculture

I now propose to deal with the agricultural situation. Approximately one-half of the people of Manitoba are engaged directly in agriculture and the large majority of the remainder of her people are engaged either in processing agricultural products or in supplying the needs of the farming population. Consequently, Manitoba's greatest concern with this matter must be with the effect which any rate increase will have upon agriculture. That the spokesmen for agriculture are united against any increase in freight rates needs no further emphasis to any person who has followed the proceedings of the regional hearings in this case.

As primary producers the farmers of Western Canada would be forced to bear the full burden of any freight rate increase in the form of an additional deduction from the price received for their product delivered to market. The increased freight could not be passed on to the buyer because the price is in most cases fixed either by national policy in the form of price ceilings or by export contracts. In the absence of such Government price fixing devices, however, the prices of our primary products are largely determined by export price levels which are in turn set by the prices which our customers will have to pay to secure similar products from other countries. In either case the financial return to the Western producer is the market price in Eastern Canada or in the European or American market less the cost of getting the product to that market.

On the other hand, with manufactured goods the farmer is again at a disadvantage. In this case any increased freight charges would in the

main be added to the selling price which the farmer has to pay, whereas the manufacturer with the advantage of his tariff protection is able to sell largely on the basis that the price to the farmer is the factory price plus the cost of transporting the goods from the factory to the point of consumption.

The position of agriculture in this regard has been admirably summed up in the brief submitted by the Canadian Federation of Agriculture which reads in part as follows:

"*Agriculture a Vulnerable Industry:*

> Agriculture as an industry is more vulnerable than most industries when an increase in fixed charges such as freight rates is contemplated. This arises from the fact that agriculture is not operated by large plants but rather is made up of hundreds of thousands of family enterprises.
>
> As a consumer of household goods and family requirements the farmer is in the same position as other consumers and of course must absorb any increased charges that enter into the retail price of these goods.
>
> As a plant operator the farmer buys practically all his farm supplies and other production requirements likewise in the retail market, at a price established at the manufacturing plant or central distributing point, plus the cost of all services and charges, including transportation.
>
> Any increase in the cost of services or charges along the line is generally passed on to the ultimate consumer, in this case, the farmer. Many of the agencies engaged in providing these services find it possible to pass along any increases to the next in line. And they do. This, the farmer is unable to do. So a rise in the cost of transportation of articles used for production means a corresponding increase in costs of production or is equivalent to a reduction in price returns for the farmer.
>
> In much the same way the farmer loses out in prices of products which he markets when charges such as transportation rates are increased. The prices of farm products for the most part are established at central markets. The farmer receives these prices less the cost of transportation to these markets. When freight rates are increased on a commodity which he markets then his farm returns are reduced by the amount of the increase. So it is that a large increase in freight rates such as that now requested by the railways would place a double burden on the farmer, for neither when he is buying nor when he is selling can he pass the increase on to anyone else."

Thus in a freight rate increase Western Canada would lose both coming and going. Furthermore, Western Canada would lose an amount which is greater in proportion to the volume of traffic concerned than Central Canada. Distances in Western Canada and in the Maritimes are much greater than distances in Central Canada. A shipment of butter

from Manitoba going to market in Toronto or Montreal will pay a rate of about $2\frac{1}{2}$c per pound, whereas a shipment of butter going to market either from Ontario or Quebec will probably pay less than 1c per pound. An increase of 30% would therefore represent 75c per cwt. in the West but only 30c per cwt. in the East, and I would emphasize again that this applies both in respect to goods produced in Western Canada and shipped to markets in the East as well as on goods bought in Western Canada from Eastern manufacturers. In both cases the freight rate is substantial and in both cases the great bulk of the cost is borne by the people of Western Canada.

Effect of Rate Increase on Export

Another matter which in our view should receive most careful consideration is the manner in which any freight rate increase will affect Canadian markets for export products. Western Canada as a whole and the prairie provinces in particular are dependent upon exports to a greater extent than probably any other comparable area in the world. The continued prosperity of Western Canada and consequently the prosperity of the Canadian railways and in fact the prosperity and the standard of living of the whole of Canada can only be maintained if there continues to be available a foreign market for a very substantial part of the total production of the West. Western Canada has grown to its present level of production in a period of less than 70 years and throughout almost the full span of those years its economy has been geared to a market many times larger than the market provided by the 12 million Canadians. Production costs and standards of living throughout this area are based on a large scale operation and could not be maintained if Canadian farm output were reduced to the level which would be needed to supply only the population of Canada. Foreign markets can only be found for this tremendous surplus if the Canadian producers are willing and able to deliver their products to the markets of Europe and Eastern United States at prices which are equal to or lower than the prices being asked by producers of similar goods located in other parts of the world. One of the most important factors in determining the price at which Western Canadian producers can sell their goods abroad is the cost of transporting those goods to seaboard and the cost of water transportation to the points of consumption. Another important element in Canada's ability to maintain her export markets is the level of costs which her primary producers must pay for their essential production equipment and for the goods which they must have for their families. Here again freight rates are one of the most important consideration. Any increase in the freight rates either on export commodities or on goods which are essential to the maintenance of modern large scale agriculture in Western Canada must therefore react either as a direct reduction in the return to the Canadian producer or as a further restriction upon the volume of Canadian goods which can be sold abroad.

One must not be misled by the present demand for Canadian products which comes from the hungry people of the war-torn areas of Europe and Asia. The experience of the '20's and the '30's amply proved that once agriculture production in Europe and Asia becomes re-established the

fierce competition for markets for primary agricultural products will again be resumed and the farmers of Western Canada can only maintain their position in those markets if during the period of scarcity they have continued their utmost efforts to prevent any permanent increase in uncontrollable elements of their production and living costs.

Effects of Inflexible Costs on an Industry with Fluctuating Prices

The true measure of the burden involved in the proposed freight rate increase must be sought in a consideration of the relationship which this new permanent fixed cost would bear to an economic system which is subject to frequent and violent price fluctuations.

During the course of regional hearings and again in argument the railways' counsel referred to the fact that because business, including agriculture, was in a prosperous condition today, this in itself justified the granting of the application for increased freight rates. Something should be said as to the fallacy inherent in any such argument. If the foregoing argument is sound, then the converse would be sound, namely, that when business conditions fell then freight rates should accordingly be reduced. However, as has been pointed out, during the 1930's freight rates stayed at relatively high levels while the price to the Western producer was down to disastrously low levels—he carried on only by cutting his expenses to the bone and by using capital.

At the present time prices of Western products are high but we are now entering the third year since the end of hostilities, which is a period roughly equivalent to the summer of 1920 in relation to World War I. I need not remind the Board of the disastrous fall in agricultural and other primary product prices which occurred at that time. I do not suggest that the pattern of the 1920's will be repeated but I do suggest that in fixing freight rates which will presumably remain constant over a relatively long period of time it is quite unsatisfactory to consider those freight rates in relation to the price structure which is before us at the present time. We must take into account also the extremely low price level of the '30's when in many cases transportation costs to market absorbed almost the entire value of the product concerned. Present high prices for raw materials and present high levels of profit in many industries are no more satisfactory as a basis for the determination of freight rates than were the extremely low levels of 1932 and 1933. In this time of relatively high prices and relative prosperity, Western Canada should not have placed upon it a burden of rigid costs in the form of freight rates or any other long term commitment which will prove to be unsupportable in the fiercely competitive conditions which are certain to develop in the future.

It is for these reasons that Manitoba has always taken a leading place as a champion of Western interests opposed to any railway monopoly or any increase in railway rates which can be made effective in Western Canada because of the absence of competition to the railways.

Chapter VII

PROPOSED REMEDIES

Having made these general observations regarding the effect of a freight rate increase on Western Canada, I will now deal specifically with the question: In the event of financial need being found, how is this to be provided?

Increased Efficiency

During the course of the hearings a number of exhibits were filed and considerable evidence was adduced with respect to increased efficiency in operation of the railways and the possibility of affording a saving in costs, and giving a greater net return, by the use of more modern equipment and methods.

In particular there was evidence that savings in operating costs could be brought about,

(a) by improvements in the efficiency and capacity of equipment;

(b) by the use of power tools, and of new and improved equipment which would reduce labour requirements;

(c) by the elimination of uneconomic competition in certain areas.

It is not my intention to review that evidence. The Board has that fully in the record and no doubt will have the advice of experts thereon.

We do, however, urge upon the Board that the railways be required to put their own houses in order. It may be said that efficient management is already doing this. Be that as it may, we are not satisfied that the maximum effort is being put forward. 1947 was the year of an application for a rate increase—not for that year but for many years to come. The incentive was present to produce a picture which was not too favourable. That is only human nature. The spur of necessity uninfluenced by a rate increase application might well produce better results. That possibility should not be overlooked in dealing with the financial position of any organization. I say the railways are not exempt from that. That is all I propose to say on this aspect.

Horizontal Increase

The railways in their application have asked for a 30% increase, with limitations as to coal and coke, on all rates subject to the jurisdiction of the Board. The objections to this method of providing a remedy have been canvassed not only on the preliminary argument as to the jurisdiction of the Board but also at the regional hearings. Other counsel will undoubtedly discuss this matter at length. It is not my intention to enter upon any extended argument. However, there are certain points to which reference should be made.

It will be recalled that Mr. Pitblado in his argument dealt with this matter at length, particularly the objection which had been taken by Mr. Symington on behalf of Manitoba in the 40% case in 1920. Mr. Pitblado contended that it was, on the whole, the fairest method of providing increased revenue and that it did not disturb the basic freight rate structure. It is difficult to reconcile this contention that it is a fair method with a statement which appears in the 1937 report of the Duncan Royal Commission on the claims of the Maritime Provinces. This statement is as follows:

> "The railway administration, in giving evidence before us, agreed that long distance traffic, particularly heavy traffic, had been seriously prejudiced by the operation of the horizontal increase."

Manitoba submits that a straight horizontal increase on all rates in Canada would be unjust and unreasonable and would place an unfair burden upon those who today pay the heaviest rates, namely, those whose goods must be hauled long distances (in most instances these are heavy goods) i.e., the primary producers of Western Canada. We further submit that a uniform horizontal percentage increase applied to all parts of Canada would be particularly unjust to those whose freight bills are already high because of an existing rate structure which charges them rates which are higher than rates for comparable goods and comparable distances in other areas.

I would not wish this to be interpreted as a suggestion that rates should all be on a straight mileage basis with a uniform rate of tapering. Rather it is our submission that rate uniformity, particularly as between areas, should be the ultimate objective of policy and that any action which deviates from that policy, and particularly any action which would have the effect of increasing the deviations from that policy, should not be taken unless there are extremely cogent and powerful arguments against any alternative.

Rate Levels—East and West

Having submitted that we are opposed to a straight horizontal increase applied to all rates, it naturally follows that we have submissions to make with respect to alternatives.

One of these alternatives is that the railways be told that they must not raise their rates in areas which are already subject to higher than average rates unless and until they have raised rates in those areas which have for so many years enjoyed the benefit of relatively lower rates. To be specific, this alternative is that the railways be required to raise Eastern rates to a parity with Western rates before any rate increase in the West will be considered.

Before elaborating further on this submission it is our contention:

(a) that there is ample evidence not only in the reported decisions of this Board but in the evidence adduced on this hearing that rate levels in Eastern Canada are lower than in Western Canada;

(b) that there is ample precedent for this Board issuing a decision designed to eliminate this disparity;

(c) that no evidence has been adduced which would justify the Board in disregarding the principle of rate equalization which is supported by precedent, by previous statements of national policy and by reason and common sense.

(1) *Previous Decisions of this Board*

The following references to previous cases before this Board will indicate the extent to which the Board considered that disparity in rates as between the East and the West had been established.

In the *Western Freight Rates Case* (1914) it was recognized that there was a disparity between Eastern and Western rates.

In the *Eastern Rates Case* (1916) it was laid down that tolls in Eastern Canada and in Western Canada should be brought to a parity so far as this could reasonably be done.

In the *Increase in Passenger and Freight Tolls Case* (1917), the so-called 15% case, there was a further recognition of the disparity between the East and the West and in that case the Western rates were raised 10% only, whereas the general bulk of Eastern rates were raised 15%.

In the *25% Increase Case* (1918) one finds an extremely strong declaration of government policy. This was the case where, the Board was directed to put into effect an increase of 25% in all rates in Eastern Canada, whereas in Western Canada the increase was limited to 25% over the level previous to the 15% case.

In the *1920 Rate Increase Case,* otherwise known as the 40% case, the Board granted a 40% increase in Eastern tolls and a 35% increase only in Western tolls.

In the *10% Reduction Case* (1921) the reductions were based on maintaining the same differential as that established by the 1920 case.

The *Investigation of Freight Rates Case* in 1922, was undertaken on the basis of an order-in-council which clearly recognized that a disparity existed when it concluded that "as conditions have probably changed materially in recent years tending more and more to make equalization practicable, an enquiry by the Board be directed to be held at the earliest possible date with a view to the establishment of rates meeting to the utmost extent possible the above requirements as to equalization."

The *General Freight Rates Investigation* (1927) also had its origin in an order-in-council which recognized that there was a difference between Eastern and Western rate levels and directed that steps should be taken to eliminate it.

In view of the fact that it might be urged that the foregoing cases were not conclusive as to the disparity, Manitoba led evidence on the issue in the present case. I now propose to review that evidence.

(2) *Evidence as to Disparity in Class Rates*

With regard to the question of the level of railway freight rates in Eastern Canada and in Western Canada a very large volume of evidence was submitted both by witnesses on behalf of the railways and by witnesses on behalf of the Provinces and private organizations. For convenience it seems best to deal with this subject first with regard to the level of the class rates and secondly with regard to the average level of all rates in effect in Eastern Canada and in Western Canada.

Exhibit 324, and the charts which accompany it were introduced by Mr. Moffat to illustrate the variation between the class rates in the various rate areas. Table 2 of Exhibit 324 shows that if one considers only the rates for mileages up to 1,000 miles the average level of class rates in the Prairie provinces is approximately 13½% below the average level of class rates in British Columbia, whereas the average level of class rates in the Prairies is about 3½% above the average level of class rates in Central Canada.

Exhibits 33 and 34, introduced by Mr. Jefferson, comparing Class Rates and Distributing Rates East and West, were designed to show that while differences did exist they were not of a substantial character.

Mr. Evans made reference to these exhibits during the course of his argument. Because of the low volume of traffic involved, Mr. Evans called these "largely paper rates". It has been stated that the Class Rates carry only about 5% of the total traffic and as such are therefore of no significance. If that contention is true then it follows that the railways in maintaining this discrimination are maintaining a rate structure which is inequitable to freight shippers in the Prairie provinces and they are maintaining this inequitable freight structure in spite of the fact that they would have us believe that it is of no significance to them.

We do not agree, however, that the level of Class Rates is of no significance. The standard mileage Class Rates in themselves may carry a relatively small volume of traffic. In Western Canada, however, the distributing Class Rates apply only in one direction and consequently inbound traffic from the small towns to the larger centres moves on standard mileage rates except when special commodity tariffs have been issued. In Eastern Canada this situation is not true for the town tariffs apply both on outbound and inbound traffic.

Furthermore, the level of standard mileage Class Rates is an important factor in determining the level of distributing Class Rates and town rates. Evidence shows that this relationship is by no means constant but it can scarcely be denied that such a relationship exists and that the higher level of class rates in the Prairies does reflect itself to a greater or less degree in the level of rates for a fairly substantial volume of the traffic.

It is our submission that there is no justification for this differential between Class Rates in Central Canada and in the Prairies. Whether or not there may have been in the past some justification for higher rates in Western Canada in relation to the volume of traffic and the amount of competition, we submit that conditions have now changed to the point where such discrimination is no longer justified.

(3) *Evidence as to Disparity in the Average Level of Rates*

The major discrimination against the people of the Prairie provinces in regard to freight rates is, however, not the discrimination with regard to class rates but the discrimination with regard to the general level of all effective rates involving Class Rates, Commodity Rates and Competitive Rates. From the very beginning of railway operation in Western Canada the level of rates in the West has been established well above the level of rates in Eastern Canada. In earlier years the railways claimed that competition with waterways and with American railways made it necessary for Canadian railways in Eastern Canada to provide competitive rates far below the level of Class Rates and far below the level of comparable rates in the West if they were to retain the traffic. With the passage of time water competition became much less significant and competition with American rail lines continued to be important only in certain hauls. In the last year increases in freight rates in the United States have further reduced the extent to which Canadian railways must keep their rates in Eastern Canada down in order to prevent the diversion of their traffic.

The railways have, however, a new and formidable rival in the rapidly developing motor truck industry. Numerous railway witnesses have, however, asserted that in their opinion an increase of 30% in railway freight rates in Eastern Canada could be put into effect without causing any substantial loss of traffic to trucking organizations.

Furthermore, the railways on September 29th, announced that they proposed to raise all competitive rates by 30% without regard to the Board's decision on other rates. It is not my intention here to go into the reasons why we of the Province of Manitoba opposed that proposal at the time. I do, however, assert that the fact that the railways were prepared to increase competitive rates by 30% is unanswerable evidence that competition with motor trucks or with any other type of transportation has no longer the least remnant of validity as a reason for keeping Eastern rates at the present level.

During the course of his evidence Mr. Jefferson, answering our contention and in reply to a number of exhibits making rate comparisons filed by British Columbia and Alberta, introduced a number of exhibits. Mr. Jefferson was examined at considerable length in regard to the matter of rate levels and at no point did he admit that there was a disparity in the average level of rates. He was closely questioned by me as to the effect of these exhibits. One particular question and answer is very important. I was questioning him as to rate levels East and West and I said:

Q. "But you admit there still is a spread?"

A. "Yes."

He later restricted this, however, to Class Rates, although before he would not admit even this.

Mr. Jefferson filed several other exhibits for the purpose of showing that in some cases at least the differences in rates were not in favour of Eastern Canada. Admittedly some of these were paper rates. They are certainly not conclusive nor even an effective exposition of the situation.

Our submission is that if you are dealing with general levels of rates, you require something in the nature of a study as embodied in Exhibit 326; and my submission to the Board is that Exhibit 326 establishes beyond doubt that there is disparity between Eastern and Western levels.

Exhibit 326 was introduced by Mr. Moffat and on the basis of that calculation he estimated that, on the average, freight rate levels in Western Canada were, in 1946, higher than freight rate levels in Eastern Canada by 14%. This calculation dealt with all effective freight rates, that is, all rates which actually were used to move traffic on the C.P.R. in 1946 and was based on a method developed by the Interstate Commerce Commission for use in comparing the level of freight rates in different areas of the United States.

At page 11770 of the transcript, Mr. Moffat submitted the following table:

PERCENTAGES BY WHICH WESTERN FREIGHT REVENUE LEVELS EXCEED EASTERN FREIGHT REVENUE LEVELS

After adjustment for differences in average length of haul

Western Levels Higher	%
Fruits and Vegetables	48.3
Cement	40.0
Coal—Anthracite	37.2
Coke	30.9
Ores and Concentrates	26.7
Petroleum, petroleum products and Asphaltum	23.8
Dressed Meats and Packing House Products	17.9
Grain and Grain Products	17.3
Coal—Bituminous	15.5
Livestock	14.3
Lumber, logs, pulpwood, singles, etc.	12.4
All Other Revenue Billing (Carload and L.C.L.)	11.9
Sand, Gravel and Stone (crushed)	4.9

Western Levels Lower	%
Refinery and Smelter Products	.6
Paper, Printed Matter and Books	8.5
Woodpulp	45.6

This exhibit was subject to strong attack by C.P.R. counsel, Mr. Evans. He said it was "an attempt, although an unsuccessful one . . . , to determine the extent of the real difference in rates between Western and Eastern Canada. It is to say the least, an ingenious attempt and requires rather careful examination in order that its limitations and shortcomings may be understood."

I submit, Mr. Chief Commissioner, that this is not an accurate statement. It is an attempt to cast doubts on the validity of the exhibit without proving that it was defective.

Heretofore evidence of the disparity between the East and the West has been supplied by comparisons of individual rates East and West. No over-all comparison of all rates had ever been presented. A considerable number of exhibits were introduced both by the railways and by the provinces with respect to this question in this present case. The vast majority of those exhibits deal with rates and rate structures which handle only a small volume of traffic. In the terms which we have become accustomed to using, they are paper rates.

I submit, however, and here I have the support of Mr. Evans, that Exhibit 326 is a very different matter. Mr. Evans described it as an attempt to determine the extent of the real difference in rates between Western and Eastern Canada. He argued that it was an unsuccessful attempt to do this and he submitted several reasons for that view. I propose to deal now with those reasons.

Editorial Note:

> *At this point Mr. McLean devoted 12 pages of transcript to a detailed review of Mr. Evans' argument regarding Exhibit 326 and to a consideration of the change in the result which would have been produced by accepting Mr. Evans' suggestions. He then concluded as follows:*

Mr. Evans' criticisms of Exhibit 326, therefore, really amount to two points:

1. He says that the yardstick for adjusting Eastern traffic and mileages to Western distances should have been the Eastern class rates not the average of Eastern and Western class rates.

2. He says the study should not have dealt with all traffic and all tonnages and all revenue of the C.P.R. in the two areas. Rather he would like to speculate as to what the result would be if one could eliminate certain types of traffic or if one could limit ones attention to the small volume of coal traffic that moves on the rates quoted in Exhibit 54.

With respect to the first point my comments are:

1. The use of the average of class rates in the two areas is not an error in principle, rather it is more reasonable to use the average of the two areas rather than to use either of them separately.

2. In any case the difference between the two methods would be extremely small. I am going to say to this Board that if the recomputation is made it will be found that the difference is infinitesimally small whether you project it on Eastern or whether you project it on the combination of the two. It can be computed from the tables which are on file here and from Exhibit 326 and I submit that if that recomputation is made the final result will be within one tenth of one percent of the figure of 14% shown by Mr. Moffat in Exhibit 326.

3. It is not axiomatic that all the differences for individual commodity groups would be in the same direction. I submit that if the recomputation is made it will be found that of the 16 commodity groups in

Exhibit 326 there is one case where the result is identical, 8 cases where Mr. Evans' method increases the differential against the West and 7 cases where Mr. Evans' method decreases the differential against the West.

On the second point my submissions are:

1. For the purpose of this enquiry a comparison of all effective rates is much more significant than a comparison of any selected group; the greatest difficulty with all rate level exhibits, prior to Exhibit 326, was that they dealt only with special parts of the rate structure and gave no overall picture.

   It will be recalled that in previous enquiries, as well as in this enquiry, there have been introduced a large number of exhibits—something moving from Glen Tay to Toronto and something moving from Birtle to Winnipeg. Then the question immediately arises, is there any traffic that moves from Birtle to Winnipeg, or is there any traffic that moves from Glen Tay to Toronto from which you can get a comparison. Our submission is that all we have attempted to do in Exhibit 326 is to take the general level of rates. Admittedly some rates are going to be higher and some are going to be lower, but if you take the dollars which are produced for moving that traffic and equate them, you find the general level lower in the East than it is in the West and it proves that satisfactorily, I submit, notwithstanding the criticism directed to that Exhibit by Mr. Evans.

2. The public of Canada and the Provinces, and I am sure the Board and the railways would be very much interested in rate level studies of selected types of traffic, but the railways, and only the railways, have the data to make that study and they have not seen fit to do that.

It is, therefore, my contention that this Board would be fully justified in accepting Exhibit 326 as a valid comparison of the level of all effective rates in the East and the West as of 1946. As pointed out by Mr. Moffat, the results for 1947 would probably show a slightly smaller differential because of the changes in international and related rates. The additional increase in those rates authorized in September would have a further small effect in that direction. On the other hand, the item of "Absorptions and Corrections" mentioned in the footnote to Exhibit 326, and explained by Mr. Moffat, acts in the opposite direction to offset somewhat the changes in international rates.

It is my submission, therefore, that Exhibit 326 establishes the fact that on the average the level of all effective freight rates in Western Canada as of today is above the level of all effective freight rates in Eastern Canada by an amount which is not significantly different from the 14% as shown in Exhibit 326.

(4) *Mr. Pitblado's Arguments Against Equalization*

Mr. Pitblado also devoted a considerable portion of his time on argument to the East-West rate question. He is and was thoroughly familiar with this "burning" question.

Although different percentage increases, East and West, were given in previous rate cases, he submitted that in this case "if a percentage increase is granted, no such difference—no difference at all—should be applied," for five reasons. I now propose to deal with these five reasons.

Before doing so, however, one comment should be made. It would appear clear from Mr. Pitblado's argument that he was prepared to admit that such disparity in rate levels existed but he said it was not unjust discrimination justifying Board action. Our answer to that is that parity is the avowed policy of the Government and the Board and, if conditions permit, any disparity—even a minor one—should be eliminated.

1. In the first place, Mr. Pitblado contended that since, in this case, no increase was being asked upon grain rates covered by the Crow's Nest Pass rates and on export grain rates to the Pacific Coast, this was a good reason for departing from the previous decisions of the Board.

He said further that "in view . . . of the exempt traffic, and the large volume of it, it would seem that with this definite advantage in favour of the West on this application, no further advantage in the way of a lower percentage of increase on the other traffic should be granted to Western Canada." He said in support of this reason, that these grain rates represented 19.5% of total C.P.R. revenue and 13.2% of C.N.R. revenue on 1947 estimates without any of the increase applied for. While this exemption will unquestionably assist in somewhat narrowing the disparity between the East and the West, it certainly will not remove it and there is no reason why it should not be wholly removed. Further, this reason of Mr. Pitblado's is in effect an argument that because there is some measure of equalization the balance of the disparity should remain. Crow's Nest rates are statutory and it is no action on the part of the railways that has excluded them from the application. This is an attempt to use the existence of these statutory rates to refuse relief on other rates effective in the West, i.e., an indirect attempt to refuse relief because of these statutory rates. And I submit that if there is disparity remaining even with the fact that grain rates are exempt, that disparity should be removed.

2. Mr. Pitblado's second reason was "that as a greater percentage of the proposed increase will come from Eastern Canada than from Western Canada, no difference should be made."

He referred to C.P.R. estimates which indicated that 51.2% of the increase would be collected in Eastern Canada and 48.8% in Western Canada. It is submitted that in view of the disparity remaining and the fact that Eastern rate levels are lower than Western rate levels, this is no sound argument. In any event Mr. Chief Commissioner, the difference between 51.2% and 48.8% is no small as to nullify that reason.

3. Mr. Pitblado's third reason was that the "alleged disparity between Eastern and Western rates which existed when former percentage increase cases were decided, has been much narrowed."

Now I ask the board to note that "has been much narrowed". It may have been "narrowed", but the fact that it is "narrowed" is not good enough. We have shown that there is still a disparity in effective rate levels. The mere fact that there may have been a narrowing surely is no ground for refusing removal in the light of existing circumstances.

4. Mr. Pitblado's fourth reason was that "not only have the percentage of differences decreased, but the General Freight Enquiry of 1925 to 1927 . . . exhaustively considered again all the alleged differences or disparities or inequalities between the East and West, and held the present basic rate structure was proper and justified and made no further change."

It is submitted that the finding in that enquiry no longer supports retention of any disparity in view of the evidence of the changed conditions regarding competition in the East. This disparity should not be allowed to continue in view of the reiterated policy of equalization. If the 1925 and the 1927 Case is examined it will be found that the Board said that there was competition in the East that justified a somewhat lower rate level than existed in the West where that competition did not exist. My submission is that today, on the evidence which has been presented to this Board, that competition is gone, and therefore, that competition having gone, the disparity should disappear.

5. Mr. Pitblado's fifth reason related particularly to British Columbia and is of no relevance to the general over-all Western picture.

Mr. Pitblado closed his submission on this point as follows:

"So I submit . . . that the percentage increase is the fair way to increase these rates . . . and that, although a difference in rates as between East and West was granted in the former cases, nevertheless conditions are different today, and there should be no difference insofar as East and West is concerned, if a general percentage increase in freight rates is given."

With all deference to Mr. Pitblado it is submitted that his conclusion is not correct. True, there is a changed condition, that is, the absence of effective competition in the East. But that very changed condition is a sound reason for the removal of the disparity. For that was the only reason that has ever been given for it and that has gone. Therefore, our submission is that that condition having disappeared, the disparity should disappear.

We submit that the mere narrowing of rate levels between Eastern and Western Canada is not enough. The goal is "parity". That has been expressed in the previous judgements of the Board, in Orders-in-Council and in Orders directing previous enquiries.

(5) *C.P.R. Earnings East and West*

In addition to Exhibit 326 which was filed by us to show the disparity between Eastern and Western rate levels, there is Exhibit 131 filed by

the C.P.R. with regard to C.P.R. earnings in Western Canada and in Eastern Canada. That exhibit can be summarized as follows in terms of annual averages for the 10 year period 1936-1945, inclusive.

	Gross Earnings	Working Expenses	Net Earnings
	$ millions	$ millions	$ millions
Lines East of Fort William........	102.5	90.4	12.1
Lines West of Fort William.......	113.3	90.0	23.3

It is clear from these figures that the working expenses on Eastern lines and on Western lines are almost identical with an average of just over $90 million per year for the period covered. But whereas this expenditure of $90 million produced an average net earnings of $23.3 million in Western Canada, an expenditure of $90 million produced an average net earnings of only $12.1 millions in Eastern Canada. Putting it another way, for the same expenditure of money the C.P.R. over the 10 years 1936-1945, was able to earn $233 million in Western Canada and only $121 million in Eastern Canada.

Editorial Note:

At this point a discussion took place concerning the relationship between these figures and the variation in mileage of track, in competition, in traffic density and in terminal costs in the two areas. Mr. McLean then proceeded as follows:

It is true that the mileage of the C.P.R. West of Fort William is much greater than the mileage of the same company East of Fort William. In fact, for all practical purposes it is twice as much. But the point is that to operate the $\frac{1}{3}$ of the mileage which is in the East, the C.P.R. spent the same amount of money on the average in the ten years, as to operate the $\frac{2}{3}$ of the mileage that is in the West. And in the East it made only $12.1 million per year and in the West it made $23.3 million per year—very nearly twice as much for the same expenditure of money.

Furthermore it is well known that construction costs on the prairies and the amount of capital expenditures, were substantially lower than in the East and consequently the distribution of mileage in the two areas is in no way indicative of capital costs and investment in the different areas.

I suggest to you, therefore, that quite regardless of how the item of capital investment is allocated the results for Western Canada will reflect very satisfactory net earnings for the C.P.R. in that territory. In view of this fact and in view of the fact that Western freight rates are still higher than Eastern freight rates, Manitoba submits that no increase in Western freight rates is justified so long as the net earnings in the Western territory continue to show this result.

Submissions

(a) *Equalization of Rates*

Having regard to the expressed desire of the Dominion Government and of this Board for equalization and the practice established in the

previous cases, it is submitted that no order should be made for any increase in Western rates until such time as Eastern rates have been brought up to the level of Western rates.

Furthermore, we submit that so long as the present satisfactory results are being obtained from the rates charged in Western Canada by the C.P.R. no further freight rate burden should be imposed upon the West.

Having regard to the evidence which has been adduced in this hearing it is now apparent that the railways can make effective the increases in the East. That is so because—

1. American railroad competition has largely disappeared by reason of higher rates in the United States;
2. Water competition has in some cases completely disappeared and in others it is no longer effective;
3. Motor truck competition has substantially lessened because of increased costs; and
4. The railways themselves by their proposed policy of raising all competitive rates have established beyond doubt that in their opinion the competition will not prevent them from raising Eastern competitive rates.

(b) *Uneconomically low rates*

If, in the opinion of the Board, the raising of Eastern rate levels generally to Western rate levels will not provide sufficient revenue, then it is our submission that the railways should raise those uneconomically low rates which have been brought about by competition which has now entirely disappeared or has substantially lessened.

COMMISSIONER STONEMAN: Do you suggest that they should all be raised throughout Canada?

MR. McLEAN: Yes, Mr. Commissioner Stoneman. If there are uneconomically low rates, then the railways should be allowed to raise those rates.

MR. O'DONNELL: Are you withdrawing your opposition to our attempt to raise them?

MR. McLEAN: I am, to this extent: that the railways should first of all find their revenues in raising the eastern rate levels. We say they can do that. And secondly, we say that if that does not produce enough, then the uneconomically low rates should be raised. I am not suggesting, Mr. Chief Commissioner, necessarily those termed "competitive" alone because I am satisfied that embodied in the rate structure, there are rates which perhaps do not go by the name of "competitive" today, but their existence—their lowness, was initiated or brought about by potential competition.

MR. O'DONNELL: We could raise them too?

MR. McLEAN: If they are uneconomically low, I suggest this is the time they could raise the rates which are not carrying their fair share of the burden, and to the extent that they exist in Manitoba, we would have to pay those rates.

COMMISSIONER STONEMAN: What about constructive mileage?

MR. McLEAN: Mr. Commissioner Stoneman, Manitoba bought and paid for that, and I suggest that this Board, in previous decisions, has held that a justifiable reduction in Western rates which enures to the benefit of the whole of Western Canada. If Eastern rate levels are raised to Western rate levels it would be time enough to consider the matter.

COMMISSIONER STONEMAN: What about transcontinental rates?

MR. McLEAN: Well, if they are uneconomically low, having regard to the position I take, I must say that these should be raised.

COMMISSIONER STONEMAN: There was another rate which was given on oil from Calgary to Regina because of potential pipe line competition. Would you suggest that if these competitive rates are raised that rate should be raised also?

MR. McLEAN: Yes. I suggest that if it is an uneconomically low rate, it should be raised. I am willing to admit that there may be cases which might arise in the future—not such a case as in somebody's mind who comes to the railways and says, "We are going to build a pipeline," but a rate which is brought about by the reality of competition. Those rates may have to be down if the railway is going to continue to enjoy the traffic.

COMMISSIONER STONEMAN: If competition was under consideration, with respect to the costs of construction of a pipeline that would be a different matter at that time, and consideration of that construction would be quite different from what it is now. I wondered if your suggestion was that these types of competitive transporation and rates should be changed.

MR. McLEAN: I would go that far because I think it is unfair that that traffic enjoy a rate which I describe as uneconomically low, enjoy that rate due to conditions which have disappeared.

By the same token, when the railways say they can effectively raise competitive rates because the competition has lessened, then those rates should go up to an economical level, rather than simply to take the whole of the rate structure and set a horizontal 30% increase on it. We in the West, Mr. Chief Commissioner, as you know, have always felt strongly, because we have no competition which is effective to keep rates down. We say that the circumstances have now changed, and that, as far as the West and the East are concerned, there can be parity.

COMMISSIONER STONEMAN: There is great disparity between export and domestic rates. Do you think there should be any levelling of those?

MR. McLEAN: I am not in a position, Mr. Commissioner Stoneman, to express an opinion. I have not studied the level of these rates; that is something which lies particularly within the purview of the railways themselves. Whether those rates are uneconomically low, I do not know.

COMMISSIONER STONEMAN: If you are going to take as a reason that rates are uneconomically low, and you find one which is 50% of the other, is that to be taken as meaning that the one is uneconomically low, or should there be consideration given to the very potent reasons why a lower rate should apply in some instances on traffic going to certain destinations, than it does on other traffic?

MR. McLEAN: I would agree, Mr. Commissioner Stoneman, that there may be circumstances which necessitate a lower rate; that is, for example, your export of a heavy commodity. In order to get that traffic to move, it may be necessary to have a lower rate than you might have on an inland movement.

COMMISSIONER STONEMAN: To me, it sounds very desirable to have what is termed a parity of rates. I think probably parliament had that in mind, when they passed certain—or made certain directions in whatever form they may have been; but is it practical to have a rate structure where you have complete parity of rates?

MR. McLEAN: No, I do not think it is. I would not for a minute argue that. In respect of circumstances of a particular movement, circumstances of the area may effect it. But I am suggesting, in this argument, that, as far as the general level is concerned, there should be an increase in those general levels in the East so that parity is brought about. I am not suggesting that it be mile for mile the same rate. But where rates can be raised, where they are uneconomically low, in the East or for that matter, if we have uneconomically low rates in the West, then they have got to take the burden. We cannot escape that. We cannot be consistent if we do not take that position.

Chapter VIII

MISCELLANEOUS MATTERS

I now wish to mention three other matters which have been brought before the Board. I do not intend to raise these as contentious matters, but merely to state what I am instructed by the Government in Manitoba to do. These are:

1. The Mountain Differential;
2. Alberta as the apex of the rate structure; and
3. The Fort William-Winnipeg Constructive Mileage.

Mountain Differential

We have heard considerable evidence on this question of the mountain differential and, aside from argument, I do not think that this Board has before it at the present time, evidence upon which any finding can be made. That, I submit, would have to be a matter of investigation.

Alberta as the Apex of the Freight Rate Structure

On this point we have heard a good deal of evidence not only in Ottawa but in Edmonton, and a number of exhibits and briefs have been filed. Our submission is that Alberta's geographical position accounts for the major part of its rate structure. If there is a problem as far as Alberta is concerned, which should be solved, we are firmly of the opinion that it must be solved on a national basis and that the basis upon which it should be solved is something which cannot be done through the medium of any rate changes which this Board has jurisdiction to make.

Fort William-Winnipeg Constructive Mileage

References to the Fort William-Winnipeg constructive mileage were made in the Alberta brief and in the Edmonton Chamber of Commerce brief.

While we are fully aware that this Board's jurisdiction is not circumscribed by the 1901 agreement between Manitoba and the Canadian Northern we do submit:

(a) that Manitoba bought and paid for that constructive mileage.

There is a statement in the Henry study in the Rowell-Sirois Commission Report which I would like to quote as authority for that proposition:

"It is of particular interest to note that the Manitoba Agreement, obsolete as it is today, has left its imprint even on the rates between Vancouver and stations east thereof. It actually has been responsible for a lowering of the level of class rates throughout Western Canada, and between Eastern and Western Canada. There have been, and probably will, in future, be complaints because Winnipeg receives the benefit of a shrink in the entire distance between the Lakehead and that City, whereas to and from points West thereof—Edmonton for example—actual mileage west of Winnipeg is added to the constructive distance of 290 miles. It must be remembered, however, that Manitoba paid the price for the original reduction in rates which resulted in the constructive distance which benefits it most."

(b) that this matter has been before the Board on previous cases and that on each and every one no justification was found for its removal;

(c) that to a very large extent the Board has extended the advantage thereof to the other prairie provinces;

(d) that British Columbia enjoys a somewhat similar constructive mileage extended eastward;

(e) that the constructive mileage between Winnipeg and Fort William should not be dealt with unless other constructive mileages, particularly in British Columbia, are also taken into account.

(f) that there is no evidence before the Board to justify any action thereon.

To remove this constructive mileage or to modify it would have the effect of placing a greater burden of freight rates on Winnipeg and Manitoba and also on the other prairie provinces.

C.N.R. Not a Proper Criterion of Need

At the commencement of my argument, Mr. Chief Commissioner, I stated that I was dealing with the financial situation and first of all with the question: was there financial need. I took the C.P.R. as the criterion of need and I restricted my case to it. The reasons for this position are being fully canvassed in argument by other counsel and I do not propose to do more than to make a passing reference to the general reasons why we say that the C.N.R. should not be taken as a yardstick.

1. There can be no doubt as to the character of the make up of the system called the Canadian National. While much progress may have been made in welding this into a homogeneous system there can be no doubt that with the long intercolonial railway, the national transcontinental, the line to Prince Rupert and some of the lines in Western Canada it is only under the most unusual circumstances of war and heavy traffic that the over-all system can be such as to produce a profit sufficient for all requirements.

2. The C.N.R. estimate of its 1947 results if freight rates were not increased showed a net railway operating income of $11,083,000. Admittedly this is insufficient to service all the debt and provide $13 million for additions and betterments. However, with a 30% increase on the basis of the estimated revenue for 1947 there would be a surplus, after meeting all requirements, of $3 million. Surely having regard to the almost impossible burden of debt charges, rates should not be fixed with this result.

Further, it is submitted that C.N.R. revenues are considerably over the estimate and if C.P.R. maintenance charges are at an unduly heavy level the same may be said of the C.N.R. While there is not the same discrepancy between 1939 and 1947 maintenance levels as in the case of the C.P.R., my point is that the C.N.R. was catching up in 1939 on long deferred maintenance and still endeavouring to build an efficient system.

In the light of the foregoing we submit that the C.N.R. should not be considered for rate-making purposes in its present make-up.

Chapter IX

CONCLUSION

At the outset of my argument I submitted that there were two broad questions involved in this application:

1. Was there financial need, and
2. If so, how was this to be met.

I now propose to sum up briefly our contentions with respect to these two questions.

At the very outset of this case, on the preliminary motions, the railways admitted that the onus was upon them to establish financial need. Our submission is that they have not satisfied this onus.

We contend that the actual increases in 1947 revenues over those estimated, the excessive charge for depreciation for 1947, the inflated maintenance charges and operating expenses generally, all support our submission. Further, there are the matters of other income and of additions and betterments requirement which, if taken into consideration, reduce any alleged need. The year 1947 has been taken as the base year for the rate increase and we say that the profit picture for that year together with the healthy financial situation of the railways does not make out a case for relief.

Turning now to the second question. If, notwithstanding our submission that there is no financial need, the Board finds that there is some need, we submit that no straight-line increase should be granted.

Further, we submit that the needs should be satisfied, first of all, in the manner I have already outlined, by raising eastern rate levels and thus getting rid of the disparity. Secondly, if that is not sufficient, then the railways should find their requirements of additional revenue, if any is needed, from uneconomically low rates.

No rate increase should be granted which would place, for a long time, a heavier rate burden upon the Western provinces.

APPENDIX A

PROVINCES END FINANCIAL EVIDENCE AGAINST 30% FREIGHT RATES INCREASE

Release Issued by the Information Office of the Province of Manitoba, August 18, 1947

Hearings of the railways' application for a 30% increase in freight rates have now been adjourned, at the railways' request, after 18 days of financial argument against the increase ,presented by the four western provinces and the maritimes.

The evidence and argument just concluded was a joint effort in which all the provinces took part. By common agreement, the brunt of the presentation was borne by Manitoba, (which was represented by Wilson E. McLean, K.C., Counsel, and on the witness stand for four days by R. E. Moffat, Economic adviser, Province of Manitoba), and by Manitoba and Saskatchewan jointly, (in the person of Walter Macdonald, Winnipeg chartered accountant engaged by the two provinces to analyse accounting matters relating to the railways' claims). The remaining six days were taken up by witnesses for the other provinces. Lawyers for all seven provinces took part in examination of the witnesses.

Mr. Moffat presented evidence on two major points. The first was that western average freight rates are 14% above eastern average freight rates. To show this, he demonstrated that if the C.P.R.'s western traffic in 1946 had moved at eastern rates, it would have cost only $101.5 million instead of the $116.7 million which it did cost. At the same time, if eastern freight had moved at western rates, it would have cost $124.7 million instead of $110.3 million. Differences in length of haul were taken into account in these calculations.

Mr. Moffat's second point was that judging from the best available information the railways can expect a 10.3% increase in tonnage over 1946. On that basis, he estimated that freight revenues for the C.P.R. in 1947 would be $249.7 million, compared with $218.5 million in 1946. The C.P.R.'s estimate of revenue for 1947 was $223.5 million—some $26.2 million lower than the estimate made by the Manitoba economist. Mr. Macdonald later presented figures to show that it would cost the railway $14.7 to $16 million to carry that additional tonnage—leaving a net return of about $10 to $11.5 million to the railways over their estimate.

In his evidence, Mr. Macdonald concentrated on technical financial matters. His first point was that the C.P.R. had provided too high a reserve for depreciation of rolling stock, and ways and structures, in 1947. The railway's depreciation figure was $21.3 million. If they had calculated this according to an accounting method they used up to 1942, the charges would have been only $9.3 million, Mr. Macdonald stated. Or, if the C.P.R. had used "straight-line depreciation" as most business firms do, the amount would have been $15.8 millions.

In addition, Mr. Macdonald presented evidence to show that the C.P.R. had provided undue amounts for maintenance in 1947. He indicated that the C.P.R. had provided for $115.5 million for maintenance of rolling stock and ways and structures for 1947, and entered evidence to show that the amount of expenditure on maintenance in 1939, when increased to cover the higher cost of materials and wages, and when further increased with regard to the higher volume of traffic in 1947 could have been provided for about $81.9 million.

The evidence presented by both witnesses provided support for the statement made by Premier Stuart Garson in his appearance before the Board of Transport Commissioners at its regional hearing in Winnipeg, when he said: "We are going to submit evidence and argument to show first, that the railways have no need at all; secondly we are going to show that the prairie provinces are now paying a disproportionate share of the freight costs in Canada and that share is a higher share than is paid by the industrial provinces . . . If, by chance, you should find at the conclusion of this case, that there is some need on the part of the railways, which we suggest at the moment under the best of circumstances would be very much less than what they have claimed, we are satisfied that we can establish that the raising of the levels of the freight rates in Ontario and Quebec to the levels of the effective freight rates in the prairie provinces will provide sufficient revenue to meet any needs which the railways can establish after the arguments pro and con are in."

APPENDIX B

STATEMENT BY PREMIER GARSON REGARDING MANITOBA'S STAND IN OPPOSITION TO THE RAILWAYS' APPLICATION TO RAISE FREIGHT RATES

Issued from the Office of the Premier, November 8, 1947

The story of the September 29 to October 18 hearings before the Board of Transport Commissioners goes far to clarify the situation with respect to regulation and control of freight rates in Canada. The developments during those three weeks alone fully justify the action which the seven provinces have taken in opposing the application of the Railways for an increase in freight rates.

Approximately one year ago the Railways applied to the Board of Transport Commissioners and to the Wartime Prices and Trade Board for authority to raise all freight rates by 30% with two exceptions; first, grain rates in Western Canada which are set by Act of the Dominion Parliament and second, rates on coal where the increases were to be so much per ton rather than a flat 30%.

Immediately after the application was filed, the Province of Manitoba in co-operation with the other three Western provinces and with the three Maritime provinces began preparations to oppose the application. For this purpose Manitoba retained Mr. Wilson E. McLean, K.C., as general counsel.

When the case was called for hearing in February, 1947, the Railways based their claims on the fact that their rates had been held to the pre-war level in spite of the increasing cost of operation. They contended that if they were to continue to provide satisfactory service for Canadian freight shippers they must immediately have additional revenue. In this connection the C.P.R. estimated that if its rates remained unchanged, its railway operations would show in 1947 as compared with 1946 a decline in revenues of $7 million and an increase in expenditures of $9 million, or a total worsening in its position of $16 million. Similar evidence was introduced by the C.N.R.

At the conclusion of this presentation of the Railways' financial case, the Railway Association asked that rebuttal evidence by the Provinces should be presented immediately and that the Board should forthwith proceed to an early decision because of the "perilous financial position" of the Railways. The Provinces, however, in vigorously opposing this suggestion, asserted that the outlook for the Railways was far from desperate and that before any decision was reached the Canadian Freight shippers and the public generally should have an opportunity to express their views on the matter. After considerable discussion on this point the Board of Transport Commissioners ruled in favour of the Provinces and ordered that over the period from May 24 to July 10 regional hearings should be held in each of the nine Provinces of Canada. These hearings afforded

freight shippers and the public generally an opportunity to adduce their reasons why freight rates should not be increased. When these regional hearings were over, the Provinces, on July 22 at Ottawa began presentation of their reply to the Railways' case for additional revenue. All provinces joined in the presentation of evidence which clearly showed that during recent years the Railways have paid off a substantial part of their debts and have accumulated very large reserves so that their financial position is by no means desperate. In addition the Provinces of Manitoba and Saskatchewan combined in attacking the Railways' estimates of their probable costs and their probable revenue for 1947.

Mr. Walter J. Macdonald, Winnipeg chartered accountant, retained by Manitoba and Saskatchewan jointly, to analyze accounting matters relating to the Railways' case, pointed out that for 1947 the Railways had provided \$21.3 million in depreciation, and whereas if they had calculated their depreciation according to an accounting method they used up to 1942, the charges would have been only \$9.3 million, and if the C.P.R. had used "straight line depreciation" as most business firms do, the amount would have been \$15.8 million.

In addition, Mr. Macdonald presented evidence to show that the C.P.R. had provided undue amounts for maintenance in 1947. He indicated that the C.P.R. had provided for \$115.5 million for maintenance of rolling stock and ways and structures for 1947, and entered evidence to show that the amount of expenditure on maintenance in 1939, when increased to cover the higher cost of materials and wages and when further increased with regard to the higher volume of traffic in 1947, could have been provided for about \$81.9 million.

Mr. Robert E. Moffat, Economic Adviser, Province of Manitoba, presented an estimate of the freight traffic which the Railways were likely to handle for the remainder of 1947. He stated that judging from the best available information, the Railways could expect a 10% increase in tonnage over 1946. On that basis he estimated that freight revenues for the C.P.R. in 1947 would be \$26 million higher than the C.P.R. had itself estimated. On the basis of cost data presented by Mr. Macdonald, it was estimated that it would cost between \$15 million and \$16 million to carry this additional traffic so that the net increase in Railway revenue would be about \$10 million or \$11 million above the C.P.R. estimate.

At the conclusion of Provincial evidence, the Railways requested an adjournment for the purpose of giving them an opportunity to prepare their reply. During this adjournment an important change in the situation resulted from the removal of the price ceiling on railway freight rates.

Early in the hearing an effort had been made by the Provinces to discover exactly what the Railways proposed with regard to rates. It was not clear whether they wanted an order authorizing and directing them to raise all rates by 30% or whether their proposal was that they should be given authority to raise rates by 30% but left free to decide for themselves whether or not all rates should be increased uniformly. No clear-cut statement on this question was secured from the Railway representative. This made it necessary to try to find out the extent to which the Railways

already had the right to raise rates without securing the approval of the Board of Transport Commissioners. It became clear that so long as Wartime Prices and Trade Board Order No. 92 remained in effect, no freight rates could be increased above the level in effect in 1941 without the approval of the Board of Transport Commissioners and the concurrence of the Prices Board. But on September 15, this Prices Board Order No. 92 was cancelled. This cancellation freed the Railways from any regulation over their rates other than the regulations of the Board of Transport Commissioners itself and under the Federal Railway Act.

When the hearings before the Board of Transport Commissioners reconvened on September 29, the Railways announced to the Board that competitive freight rates would be raised on November 1. The principles which would be followed in deciding the amount of the increase for particular commodities were by no means clear. In fact the announcement by the Railway representatives as recorded at page 14052 of the transcript of the proceedings consisted of only three paragraphs, namely:

> "In view of the urgent need of the railways for additional revenues, after that order became effective steps were immediately taken by the railways to increase by 30 per cent all competitive freight rates, subject, however, to the condition that such competitive rates when so increased will not exceed what may be called normal rates. And it should be made clear what is meant by normal rates. By normal rates the railways mean any rates which are applicable to the traffic in the absence of the competitive rates which are being increased.
>
> For example, the increased competitive rates will not exceed any commodity or class rates fixed by the Board or the standard tariff. Normal rates for this purpose will also include commodity rates, other than competitive commodity rates.
>
> These increases are being made effective on the earliest possible date. In the majority of cases such increases will be made effective on November 1st next."

Not only was this language confused, but under persistent questioning by Counsel for the various provinces, the Railways failed to disclose any precise information as to what rates were involved in this announcement. They did, however, quote an estimate that competitive freight rates covered approximately 16% of the total volume of revenue for the C.N.R. and they indicated that approximately the same figure would apply to the C.P.R. The Railways also said that they were taking immediate steps to file formal tariffs listing the commodities involved and the distances and hauls to which the higher rates would apply.

In the argument which followed the railways took the position that under previous decisions of the Board of Transport Commissioners it had been made perfectly clear that the Railways were free to reduce rates below so-called normal rates for the purpose of meeting competition and were also free, if they chose, to ignore such competition and to return to the normal rates. They also argued that these abnormally low rates had been introduced for competitive reasons and that the competition has now been eliminated with the result that continuation of the low rates would be unjustifiable discrimination between shippers.

The Provinces on the other hand, took the position that the Railways' whole case had been based on financial evidence to prove that additional revenue was necessary and that therefore no rate increases should be allowed until the Board of Transport Commissioners had reviewed and decided upon the financial aspects of the case. They also argued that the Board had full jurisdiction to approve or to suspend rates and that the previous decisions under which the Board had allowed increases in competitive rates did not interfere with the Board's powers to suspend rates when circumstances were different.

Argument on these points occupied the week of October 6 to October 11. On October 18, in giving effect largely to the arguments of the provinces, the board ruled that the increases in competitive rates should be suspended until further notice.

Meanwhile the Railways had continued to introduce rebuttal evidence on the main financial case. Several witnesses appeared and gave specialized testimony as to the useful lives of railway equipment and as to the desirability of various types of depreciation provisions in Railway accounting practice. No evidence was introduced to refute the provincial evidence concerning increased revenues and relatively little was said about expenses for maintenance of track or equipment.

On October 18 the Railways concluded their evidence and hearings were adjourned until November 10 when formal argument will begin.

Already the Provinces have achieved a series of useful results from their intervention in this case.

(1) They have shown that the financial position of the C.P.R. is quite ample to carry it through the period necessary for a thorough review of its position so that the Canadian public is in a much better position to judge whether or not the freight shippers and consumers of Canada should be called on to pay higher freight rate charges.

(2) They have persuaded the Board of Transport Commissioners to hold regional hearings at which freight shippers and the public, generally, were able to express their views of the question of higher freight rates.

(3) They have forced disclosure of the C.P.R.'s financial policies and details of maintenance charges which had previously been unknown to the public of Canada.

(4) They have shown that the original estimates of railway revenue in 1947 were much too low and that the railways could handle a very materially increased volume of traffic despite the much publicized shortage of equipment.

(5) They have prevented the Railways from taking matters into their own hands and raising the so-called "competitive rates" without reference to the need of the Railways or without reference to the body constituted by the Canadian Parliament to supervise freight rates.

(6) They have demonstrated that the Canadian Railways could provide quite good service during the months from January to at least November, 1947, without the need for the additional $7,250,000 per month which the Railways had said they must collect from the freight shippers and consumers of Canada, if satisfactory service was to be maintained.

APPENDIX C

Briefs Presented to the Board of Transport Commissioners for Canada at the Regional Hearings in Winnipeg, June 30 and July 2, 1947.

Submission
by

PREMIER STUART GARSON

ON BEHALF OF THE GOVERNMENT
OF MANITOBA

June 30, 1947

It gives me the greatest possible pleasure today to preface my remarks by extending to all of you a most warm and cordial welcome to the Province of Manitoba and to the City of Winnipeg. We sincerely hope that your visit will be most enjoyable and profitable, and that the material which will be presented to you by the various witnesses today and on Wednesday will be helpful to you in the discharge of your onerous responsibilities in this case.

The fact that you have undertaken this program of regional hearings is, I am sure, evidence that this problem of freight rates is in your judgment a national problem for which a solution must be sought on a national basis. We of Manitoba entirely agree with that view. The cost of maintaining the Canadian railways is, we contend, a national responsibility. It is a responsibility which should be borne equitably by all Canadians and no disproportionate share of which should be borne by any one section of our country.

The increase in their costs which the railways claim as the basis for their demand for a 30% freight rate increase, arises as a result of national policies and the national war effort. It is not the result of any action of any section of Canada . . . the prairie provinces for example. To take care of whatever legitimate increase in cost of railway transportation the railways can fully prove and justify, is a national responsibility. As far as practicable, this responsibility should be shared by all Canadian freight shippers on an equitable basis. It is the whole of Canada which needs the railways and the whole of Canada which benefits from them. No one section should have to assume more than its just share of a national burden which was not created by that section, which does not properly belong to it, and which, if placed mainly upon it, would be a much heavier burden than if equitably distributed over the whole of Canada.

That would be particularly true if the part of Canada upon which an undue proportion of this burden was placed were the prairie provinces. Most of the people of the prairie provinces are farmers, miners, fishermen and other raw material producers, or those whose interests in one way or another are tied to this kind of primary production. This is the very group which would be harmed the most by an increase in freight rates. For example, the freight increase would have to be deducted from the price of eastbound livestock products. The increased freight could not be passed on to the buyer, because the prices of many livestock products are fixed. They are fixed now by national policy in the form of price ceilings or commodity agreements and, in more normal times, they are determined largely by export price levels. Upon westbound manufactured goods the prairie provinces are again at a disadvantage. In this

case any increased freight charges would, in general, be added to the selling price which the western farmer has to pay, because manufactured goods as a matter of national policy are still subject to tariff protection; and their price is now under decontrol being unfixed . . . again as a matter of national policy. Thus under a freight rate increase Western Canada would lose both coming and going.

Our counsel, accountants and advisers have been taking part in your deliberations with regard to what I suppose is your first question, viz. "Do the railways need more revenue at this time?" The full onus of proving this point is on the railways. Its importance necessitates the strictest and most complete proof by them. In due time our counsel will submit at Ottawa our rebuttal to this part of the railways' case.

For the sake of the present discussion, let us suppose—and I suggest that it is as yet a supposition—that the railways prove that they need increased revenue. I submit that then, and not until then, the question arises, viz. "In what manner, in the national interest, should any additional revenue which the railways require, be raised?" It is concerning this second question that I should like today to make certain submissions.

The first one is that this is not merely a legal contest between the railways and the freight shippers of Canada. More especially still, it should not be a matter of unfairly apportioning the burden of railway transportation costs between Canadian freight shippers, leaving those in certain areas to carry in actual fact, now or in the future, a disproportionate share of the burden. This is not a legal contest in which one side should be seeking victory in money terms from the other. It is an inquiry to determine whether the railways need additional revenue, and if so, what is the best way for them to get that additional revenue, in the interests, not merely of the railways or the freight shippers only, but of the whole of Canada. This is a case in which we can only promote our several interests by seeking the common interest—the Canadian interest.

That this is not mere rhetoric, let me illustrate by a concrete example. If we saw on the map of the world a country which was 4,000 miles long east and west by from 75 to 500 miles wide, in which the bulk of the freight moved along the length of the country over railways that traversed a number of stubborn natural obstacles in territory which for hundreds of miles on end was virtually barren of freight revenue, we would think that railroading had its difficulties in such a country. That is what two great transcontinental systems, two of the greatest in the world, are up against in Canada. One of the facts which makes railroading possible under such conditions is that the prairie provinces, Canada's principal exporting region from a railway standpoint, are in the centre of this length of railways. This gives the railways a maximum length of haul for our exports to either the western or eastern seaboard, and a maximum haul of manufactured goods back to this great exporting region in the prairie provinces. The profitable operation of the Canadian railways is heavily dependent upon the fact that this great exporting region is in the centre of their systems. Thus the prosperity, the population trends, the business activities in the Prairies, have a most direct and vital bearing upon the railways' net revenue. It is not surprising that in the 1930's when crop

failures, the breakdown in world trade and fire sale prices for exports reduced the amount of the bulk freight hauled from Prairies to seaboard, and correspondingly curtailed the backhaul of manufactured goods, the railways took losses. It is not surprising that it was under these conditions that the great overhead of long connecting lines through unproductive territory came home more severely to the railways as a result of the misfortunes of the Prairies than from almost any other circumstance. If there are any institutions in Canada which should be interested, for reasons of enlightened self-interest, in increasing the population, the production and the consumption, of the Prairies, they are the Canadian railways. More benefits will accrue to the railways from a given amount of production and consumption in the Prairies than in any other region in Canada, for the reason that a given amount of production or consumption here will result in a longer haul and a more profitable type of haul than they can get in any other region. Other things being equal, we are the goose that must lay the largest golden eggs for the railways because, due to our geographical position, our eggs have to be hauled further, either absolutely or in relation to loading, handling, and terminal costs. Giving us a square deal in freight rates will pay the railways dividends, and as I shall try to indicate very briefly, it will pay the Canadian nation dividends.

Apparently there has been in these proceedings to date, an attempt to make much of our present prosperity as indicating that we can afford to pay higher freight rates. A good deal has been said . . . and correctly said . . . about Western Canadian prosperity at this moment of time. That prosperity is a war-time windfall based largely upon the insatiable markets of war which provided us with a sale at good prices for our products; secondly, upon an unbroken series of extraordinarily good crops; thirdly, upon an excellent system of war finance that held down our costs while our prices were favorable. In a word, in the 1930's we sold poor crops at disastrous prices and used the proceeds to buy the bare essentials of existence in goods and services which had not declined in price to anything like the same extent as our income. During the war, on the contrary, we sold good crops at fair prices and used the excellent income resulting therefrom to buy our needs in goods and services also maintained at fair prices.

Our present prosperity may prove to be ephemeral. Past experience certainly indicates that we shall not likely go on indefinitely having consecutive record crops. If and when we cease giving credits to Europe, our market prospects, to put it mildly, will not be good. The prospects for our future income are as unsatisfactory as our present actual income is satisfactory.

What about our future expenditures? As decontrol has progressed, domestic prices have steadily risen. In the two years since the end of the war in Europe, the cost of living index has risen by about twelve percent. All over the country groups that are sufficiently organized to press for an increase in their returns from society are doing so. Indeed the extra costs for labor and materials which this causes is being used by the railways in the present proceedings as the basis for an increase in freight rates. As each group succeeds in getting from the nation protection for its income, some of the cost of maintaining that protected income is passed on; and some

of it comes to rest upon the consumers of the exporting region of the prairie provinces. A large proportion of these consumers are producers for export. Generally speaking over the years they cannot pass on any increase in the cost of their production to the buyers in the world market, because of the highly competitive character of that market. Generally speaking over the years the only people to whom the export producers of Canada can pass on their added cost are the taxpayers of Canada; and this has not proven in the past to be a very easy or a very desirable matter.

May I suggest that our present prosperity at this moment of time, has a very limited relevancy to a freight rate increase which is sought, not, as I understand it, for this moment of time, but for a period over which there is considerable likelihood that our present prosperity will not continue. That there is a considerable body of informed opinion that this prosperity will not continue is indicated by the fact that Saskatchewan and Manitoba during this period of wartime prosperity have lost not only their natural increase in population but sustained, between 1941 and 1946 net losses of approximately 67,000 and 8,000 respectively. Alberta, while recording a slight net gain, also lost its natural increase. This means that citizens of these provinces, experienced in living here, have considered that in spite of this prosperity which you have been discussing, they will not stay to participate in its continuance. I should like to indicate some of the reasons why our prosperity at this moment of time may still have left these emigrants from the Prairies unconvinced.

Compared with this prosperity, at least of equal importance and relevancy to this inquiry are certain of the prospects of the primary producers of the Prairies and the citizens whose economic welfare is linked up with that of the primary producers. In this connection may I emphasize that the whole group of Canadian citizens on the Prairies will have to pay the whole of any increased rates which are imposed as a result of any order made by this Board. Whether and to what extent these rates are passed on to the consumer of the goods upon which they are charged does not disprove that such increased rates would be a burden upon the prairie economy; and the question is whether in the light of past experience there is now any prospect that the prairie provinces can afford, not at this moment of time, but over the ensuing postwar period, to carry such a burden. Whether over such a period such a burden can be carried without serious adverse effects directly upon our western economy and indirectly upon our national economy, must have a most important bearing upon your decision as to how should be provided any increased revenue which you may find that the railways require.

In a consideration of this question it will be useful to examine the basic economic prospects of the prairie provinces today in the postwar period following World War II, in the light of our experiences in the post-war period after World War I. Without in any way suggesting that all conditions of each of these periods are the same, they have some important conditions in common which, I submit, are relevant.

Now, as after the last war, the economic dislocations widespread through the world and the unstable conditions of international finance, necessitate susbstantial adjustments and a new integration. Now, as then,

extensive adjustments of wage and price levels, a broad reduction of restrictions upon trade involving the sacrifice of vested interests, are required. For the accomplishment of these objectives, international co-operation to lower tariffs, to maintain stable exchanges and to make large credits available are needed. The experience after the last war is some indication of our prospects in this regard at the present time. After the first world war the effort to achieve international co-operation failed in the economic sphere as it did in the political sphere, with the result that nations ultimately were forced to seek the solution of these problems by nationalistic controls and nationalistic policies which eventually resulted in an epidemic of virtually world-wide autarchy.

For a time after the First World War, economic activity and trade increased sharply because of international lending. By 1929 these temporary makeshifts and stimulants began to play out. International lending contracted rapidly; cereal prices were sagging and an agricultural crisis was imminent. At this juncture a stock market boom in the United States attracted short term funds to New York, thereby creating a further stringency of credit. When this boom collapsed, the descent into the maelstrom of depression began. Between 1929 and 1931 the value of world trade fell by 42%. Viewed from the standpoint of the Prairies, the uneven character of this decline is indicated by the fact that the 40% drop in export prices of seven leading agricultural raw material producing countries compared with but a 15% drop in the price of their imports, which were mainly manufactured goods. This disparity, which is typical also of the position of the prairie provinces as an exporter and a purchaser of tariff-protected manufactured goods within Canada, revealed at that time one of the most characteristic features of the world depression. Our export prices were forced down to unprecedented low levels by distress sales in a disastrously competitive world market. The cost to us of the goods and services which made up our western cost of living and cost of production did not decline in anything like the same proportion. Wage rates under collective bargaining agreements were contractual and rigid. Short of bankruptcy of the debtor, interest rates were contractual and rigid. Freight rates during this period were for the most part rigid. Elaborate overhead and the trimmings which go with rising standards of living and more complex corporate structure, proved at that time also to be inflexible. These rigid costs translated into prices for manufactured commodities, transportation and the services of groups protected by fixed salary and wage rates, left the prices of goods and services needed by producers for export relatively much higher and more rigid than the declining prices of their own export surpluses of raw materials in world markets. When the primary producer's prices, and his income fell, he was left with greatly reduced purchasing power with which to buy manufactured goods and transportation. The only way in which he could carry on was by drastically reducing his consumption. This in turn meant that the penalty upon the manufacturing and distributing industries and the railways for unavoidably maintaining their prices was the heavy reduction in their sales, their output, and their staffs of employees. This disparity between the prices of raw materials and those of manufactured goods and transportation was a general phenomenon. As a measure of its extent between 1929 and 1931, the cost of manufactured imports to raw material countries rose approximately 30% in terms of their exports, and

in these two years the real burden of servicing the external debt of these countries increased about 40%.

For Canada, the result of this steep fall in export prices was, of course, to reduce sharply our income from abroad, and thereby greatly increase the burden of our obligations; and the impact of this fell with particular severity upon the people of the prairie provinces.

There were broadly two alternative national economic policies by which this depression might have been countered. One was to attempt to counteract the initial slump by supporting the prices for farm and other export products, by maintaining confidence and activity in the building industry, and by preventing prices and costs from getting too far out of line. In the view of those then responsible for national policy this alternative was considered to involve monetary measures which were risky and unorthodox.

The other policy was to avoid these risks by following a "sound" or deflationary financial policy in order to maintain confidence in our credit here and abroad and to attempt to support the manufacturing and other sheltered industries by drastic restrictions against imports. Whatever merit this second policy might be thought to have, it was clear, even before the event, that it would increase the exporting producer's costs, have a harmful effect upon his foreign markets, and increase the spread between export and domestic prices. It therefore would increase the losses in the export industries as compared with those in the sheltered industries.

Now, after the event, it is clear to all that the results of Canada's following the second of these two policies were exceedingly unfavorable to the whole nation; and, as one would expect, such results were particularly unfavorable in an exporting region like the prairie provinces. The decline in the provincial per capita income between 1928-29 and 1933 in the prairie provinces averaged 61% as compared with the average for the whole of Canada of 48%. All of the other provinces showed a decline of less than the national average.

For the sake of the present discussion let us assume that an order is made in these proceedings which would enable the railways in this post-war period following World War II to superimpose a rigid increase upon the rigid freight rates which we now pay.

This increase would be imposed upon our prairie economy, the basic characteristics of which have not changed in any important respect since the postwar period following World War I. Moreover, while some of our circumstances, such for example as our debt situation, are now more favorable, others, like our market prospects are less favorable. Certainly world conditions generally and in particular the conditions in the European countries which prior to World War I were amongst our best markets, are today much more critical than they were after the first World War.

It is this part of Canada which is by long odds the most exposed and vulnerable to these adverse world conditions. It seems only too probable from these conditions that it will be upon us and through us that depression, if it comes during our present postwar period, will be communicated to Canada. This being so, one of the primary objectives of national policy

should be to put us in the best possible position to withstand that impact. This is the most inopportune time, in the national interest, to be increasing the freight rates and thus the fixed costs of a region which, notwithstanding its prosperity at this moment of time, is facing extremely uncertain prospects. We have been through this experience of relatively high and fixed internal costs coupled with declining export prices before. We know what it cost Canada to ignore it. In our consideration of the methods whereby the railways' revenue needs, if any, should be secured, we cannot possibly reach a wise conclusion unless we take proper cognizance of the results of the policies followed in the 1930's. These results were very bad. In the light of them surely we must conclude that the one method of securing additional railway revenues which will have the most adverse effect upon the whole Canadian nation, is an order of this Board enabling the railways to impose a freight rate increase upon the prairie provinces, the region most exposed to critical world conditions, and the region which is already paying more than its proportionate share of Canadian railway costs. It is this type of policy which gravely harmed our nation in the 1930's. It is this type of policy which drives away from the prairie provinces citizens, who, other things being equal, will provide more earnings for the railways as residents of the prairies than they would provide if they were residents of any other part of Canada. Such a policy is bad for Canada, and for no organization in Canada is it worse than for the railways. For the maintenance of a large and prosperous population of producers and consumers in the central area of the Canadian railway system, to and from which the railways get their longest and most profitable freight hauls, is fundamental to the railways' welfare, and perhaps to their solvency.

May I, at this point, briefly recapitulate:

The prairie provinces are in the centre of Canada's railway system.

They are a heavy producer of export goods and a heavy consumer of Canadian manufactured goods.

They therefore provide the railways with their longest and most profitable type of freight haul.

They therefore are most adversely affected by a freight rate increase because they have to pay both coming and going over long hauls.

The prairie provinces already pay a disproportionate share of the cost of railway operation in Canada.

The prairies' present prosperity is largely based upon the insatiable markets of war, a consecutive series of bumper crops, and a favourable relationship between costs and prices.

The war markets are gone, bumper crops cannot continue indefinitely, and the relationship between costs and prices is deteriorating.

The prairies' present prosperity is not as relevant to the railways' application for a freight rate increase, as are the prairies' basic prospects for future income.

These prospects are not essentially different from what they were after World War I.

The great world depression of the 1930's was the result of world conditions caused by World War I.

This world depression was communicated to Canada by a collapse in our export prices.

The first impact of this collapse fell upon the prairie provinces as a region most exposed to world conditions, and through them the depression was communicated to Canada.

The depression in Canada was aggravated and perpetuated by the rigidities in the farmers' and other exporting producers' costs which did not decline with the decline in export prices, and also by the fact that Canada's national policy protected the income of the manufacturing and other sheltered industries and occupations and left unsupported the prices of farm and other export products. In consequence the prairie provinces, the railways and the whole of Canada suffered needlessly from our failure to develop a policy properly designed to enable a great trading nation like Canada to withstand the impact of world conditions which were known to be adverse.

In the light of these facts which I have recapitulated we contend that the policies which in the postwar period following World War I proved to be so disastrously inappropriate, should not now be repeated in the present postwar period following World War II. At this juncture the imposition upon the main exporting region of Canada of a further disproportionate burden of freight costs would be an act quite in harmony with the disastrous policies of the 1930's. We therefore contend that before any rate increases are authorized in the prairie provinces by an order of this Board, the railways' revenue needs, if proven, should first be obtained by increasing the effective rates in the two large industrial provinces to the existing levels of the effective rates in the prairie provinces.

Editorial Note:

Following a series of questions by other railway counsel, Mr. O'Donnell asked Premier Garson if he would be good enough to elaborate on the last sentence of his brief, to which Mr. Garson replied:

We are going to submit evidence and argument to show first, that the railways have no needs at all; secondly, we are going to show that the prairie provinces are now paying a disproportionate share of the freight costs in Canada, and that share is a higher share than is paid by the industrial provinces that I have referred to here. Now, as in every judicial proceedings, the counsel putting forward a case from one side, when he is relying on matters of opinion with regard to what is the proper rate of depreciation and so on, is not always able to establish 100% of his argument; and if, by chance, you should find, at the conclusion of this case, that there is some need on the part of the railways, which we suggest at the moment, under the best of circumstances would be very much less than what they have claimed, we are satisfied that we can establish that the raising of the levels of the freight rates in Ontario and Quebec to the levels of the effective freight rates in the prairie provinces will provide sufficient revenue to meet any needs which the railway can establish, after the arguments pro and con are in.

Submission

by

THE HONOURABLE D. L. CAMPBELL

ON BEHALF OF THE
LIVE STOCK PRODUCERS OF MANITOBA

June 30, 1947

I appreciate the opportunity of appearing before you on behalf of the live stock producers and the Manitoba Department of Agriculture. In my opinion, any increase in freight rates would seriously affect the position of the live stock grower of Western Canada, ultimately bringing about reduced live stock production.

Importance of the Live Stock Industry

The production of grain is natural to the prairie provinces. The sale of grain has annually provided the western farmer with his major source of income and those who transport it, or its by-products, with a steady source of revenue. A grain crop failure in Western Canada is looked upon as a national catastrophe.

To protect the basis of the important western grain growing industry, however, farmers of this Province have been required to diversify their agriculture. If the fertility and the moisture carrying capacity of western farm lands is to be maintained—and we submit it must—and the creation of dust bowls on the prairies avoided, cultivated land in this Province must periodically be seeded down and given periods of rest. The seeding of land to grasses, clovers and other forage crops is diversification. This type of programme to be practical, economical and permanent, must include the rearing of live stock. Permanency in agriculture is dependent upon diversification and diversification in turn is dependent upon live stock production. This fact is recognized the world over and is the history of all older agricultural countries.

Live stock production, therefore, assumes a very important place in the agricultural programme conducted by farmers of this Province. Any condition which adversely affects the production of live stock, seriously affects the economy of our whole Province. The proposal to increase freight rates, if granted, would most certainly increase marketing costs, discourage further expansion of the live stock industry, seriously retard, and in some instances break down permanency and proper balance in Manitoba agriculture.

The importance of the live stock industry to Manitoba is shown by the following tables.

NUMBER AND VALUE OF MANITOBA LIVE STOCK

(,000 omitted)

	Cattle		Swine		Sheep	
	Number	Value	Number	Value	Number	Value
1931	678	$18,060	388	$1,380	214	$ 675
1936	746	15,620	271	2,197	208	568
1941	756	27,000	503	7,936	233	1,073
1946	985	42,588	377	8,506	229	990

	Poultry		Total	Total
	Number	Value	Live Stock	Value
1931	5,547	$ 4,998	6,826	$25,113
1936	4,733	4,414	5,958	22,799
1941	6,685	6,340	8,177	42,349
1946	9,427	16,861	11,018	68,945

NUMBER AND VALUE OF LIVE STOCK MARKETED

(Cattle, Swine, Sheep)—Manitoba Origin
(Stockyards and Packing Plants)

	Number	Value
1931	442,497	$ 6,980,000*
1936	565,986	8,990,000*
1941	841,627	20,321,962
1946	785,439	35,262,325

*Note—1931 and 1936—Values of live stock marketed are estimated.

Trend Towards Diversification

Many people of Canada have held the belief that the farmers of the prairie provinces have been engaged in wheat growing almost to the exclusion of other agricultural endeavors. The prairie farmers have often been criticized for being "wheat-miners", and have been advised to diversify their farming by combining live stock production with their traditional wheat growing.

The extent to which Manitoba has already diversified its production is not generally appreciated. It is true that in the early days of this Province, wheat was its basic agricultural export. As previously mentioned, it is still the most important single crop, because our land and our climate produce good yields of high quality wheat. That our farmers

have realized the necessity of diversified agricultural practices, however, is shown by the following table.

GROSS VALUE OF WHEAT CROP COMPARED WITH GROSS VALUE OF LIVE STOCK, DAIRY PRODUCTS, POULTRY

	1918	1928	1938	1946
	$1,000	$1,000	$1,000	$1,000
Value of Wheat Crop.....	$99,274,	$48,192,	$30,500,	$74,970,
Value of Live Stock, Dairy Products and Poultry.....	$39,739,	$36,608,	$34,357,	$87,127,
Value of Live Stock, Dairy Products, Poultry, as a percentage of the Value of the Wheat Crop............	40.0%	76.0%	112.6%	116.2%

This table shows a steady rise in the value of live stock, dairy products and poultry as compared with the value of our wheat crop.

If we began our table with dates earlier than 1918, the percentages shown would be even more striking.

As given here, we see that in 1918 production of live stock, dairy products and poultry totalled 40% of the value of the wheat crop of that year. In 1928 it was 76% of the wheat crop value; by 1938 it had climbed to 112.6%, and last year it was 116.2%. This is a development which we believe is in the best interests of a long-term agriculture.

From the above we submit the following conclusions may be fairly drawn:

1. The Manitoba farmer so organizes his programme that much more than one-half of his gross revenue is derived from sources other than the wheat crop. Such diversification, in our opinion, forms the soundest permanent programme for prairie agriculture.

2. The present relative position of grain and live stock prices is in reasonable balance to maintain the relationship of production for live stock and grains. Any factors such as increased freight rates which might upset this balance by increasing live stock production costs would seriously affect Manitoba's agricultural economy.

3. A shift back to a preponderance of grain production is very undesirable from the standpoint of land use and conservation as well as from the standpoint of farm revenues.

4. It is equally undesirable from the point of view of the world's nutritional needs, that a return to a predominance of grains be encouraged.

Proposed Freight Increase Direct Cost to Producers

We submit that the proposed freight rate increase, if granted, would be a direct cost to live stock producers. The brief submitted by the Sas-

katchewan Co-operative Producers, Ltd., at your hearing in Regina, June 10th, went into considerable detail in estimating the magnitude of that cost in the Province of Saskatchewan. We do not propose to burden the Board with a repetition of that calculation. We have, however, selected the shipping point Brandon, 134 miles from Winnipeg, as an average point of origin for Manitoba shipments, and on the basis of the rate of 20c per hundredweight on all live stock marketed (Manitoba origin) in 1946, have arrived at the estimated cost of bringing these animals to market amounting to $668,568. An increase of 30% on this freight bill would be an additional direct cost to Manitoba farmers of approximately $200,570.

The freight cost on the movement of live animals to our central markets is not the entire cost to Manitoba farmers, which would result from the proposed freight rate increase.

Western live stock producers annually market much more live stock than can be consumed in Western Canada. For example, in 1939, a year of normal movement of live stock from which normal deliveries of meat products would be made, only 35% of the beef went into local distribution. The balance of the beef kill had to find a market in Ontario, Quebec, and the Maritimes, or on export. The 1940 distribution breakdown in respect to pork products was almost identical with the beef situation in 1939. The distribution breakdown for the years quoted is shown in the following table:

DISTRIBUTION BREAKDOWN

Beef—Based on 12 months ending March 31, 1939

Pork—Based on 12 months ending March 31, 1940

	Beef	Pork
Local Distribution	35%	35%
Ontario, Quebec	55%	30%
Maritimes	10%	10%
Export	....	25%
	100%	100%

It will thus be seen that a market for 65% of the kill must be found outside Manitoba. Hence, freight costs are of vital concern to this area which must seek markets outside its boundaries for such huge quantities of live stock products.

In an attempt to assess the importance of this factor, we have estimated the weight of the beef and pork products from animals of Manitoba farmers shipped to points outside the Province arriving at the amount of approximately 102,000,000 pounds. We believe this is a very conservative estimate. To arrive at the present freight cost of the shipment of these products we have used the $1.21 per hundredweight rate to Toronto and Montreal. This gives a figure of $1,234,200. It is recognized that a portion of these products will move at an export rate of 85c per hundredweight. We have, accordingly, deducted $41,400 as representing an

allowance for the pork products moving to export at the lower rate which leaves us with the figure $1,192,800. An increase of 30% in the freight would add a further $357,840 to the freight cost.

These freight costs, we submit, are and would be directly passed back to the live stock producers in the form of lower returns for the sale of live stock.

Some will argue that the whole or a portion of these projected increased costs may be charged to the consumer. We submit this argument cannot be substantiated. Under our present Wartime Prices and Trade Board regulations definite ceiling prices on all live stock products are established. Consequently, it follows that all costs of production and transportation must be reflected back in the form of lower live stock prices paid to the farmer. Even in the absence of ceiling prices, freight costs are paid by the producer.

Effect of a Freight Rate Increase on Production

Our experience has definitely established the fact that the natural result of an increase in costs to the live stock industry is a lessening in production. Farmers of Manitoba have been urged to maintain live stock production. This request has been supported by certain definite agreements consummated by the Canadian and British Governments under which it has been agreed that Canada will supply large quantities of live stock products to the British market. The British Government will not likely pay more for their Canadian beef, bacon, lamb or mutton because of an increase in Canadian railway rates.

Such an increase would seriously affect fulfilment of the current contracts, the non-fulfilment of which would in our opinion seriously jeopardize Canada's marketing opportunity in Britain following expiration of the present contracts.

Should the fulfilment of Canada's present food commitments to the United Kingdom be in any way endangered through reactions arising from increased freight rates, the railways of this country would have to accept their share of the responsibility for that unfortunate result.

Instability of Live Stock Prices

Present prices for live stock and live stock products represent to a large extent the result of the extreme food shortage brought about by the war. These values may not be permanent. The live stock industry must in the near future be prepared to meet keen competition on world markets and it must bear in mind that it is an industry which in the past has experienced violent price fluctuations from month to month and from year to year. The following are examples of such fluctuations.

During the marketing week June 12th, 1947, good steers sold at 14.28c per pound, whereas during the first week of November, 1946, they were 12c per pound.

The average price for good steers for the month of June, 1933, was 4.42c per pound, and for November, 1933, it declined to 3.52c per pound.

The averages for the same months of 1936 are recorded as follows: 4.42c and 4.54c respectively.

The figures quoted give some indication of the price fluctuations which occur in the marketing of cattle. The producer has little or no control over the market price. The price which the producer receives is arrived at after all marketing charges, including transportation costs, have been deducted.

Present live stock prices are now at a fairly high level and are likely to be followed by a period in which lower prices will be paid for live stock, resulting in reduced farm income.

Railways in the past have not, during periods of low live stock prices reduced the general live stock freight tariff. This being the case in low income periods, we submit that there is no justification for granting an increase in rates because live stock values are higher than at some former time. We respectfully request the Board of Transport Commissioners, when considering any application for increased freight tariffs, to remember that during 1933 the price of "good" steers ranged from 3.5c to 4.5c per pound.

Comparative Stability of Prices for Things Farmers Buy

Thus far this brief has dealt largely with the influence of the proposed increased freight rates on diversification of farm practice and marketing of live stock. The deciding factor in a permanent and profitable live stock production is the net revenue dervied therefrom. Live stock production requires added equipment, much of which is manufactured in eastern Canada and the United States which entails long rail hauls. This equipment is both heavy and bulky in character which further accentuates the transportation problem. The charges involved in what the farmer buys are arrived at after a computation of all costs involved in production and transportation. Live stock products, in the absence of specific agreements, are sold on an open market and are generally subject to fluctuation in sympathy with world prices. This presents added risks which the producer of live stock must undertake, hence the imperative need for the strictest possible control of all costs involved, if he hopes to remain solvent and stay in business.

This situation is one of grave concern to the live stock growers of Manitoba. In fact, it affects our whole future as farmers, and therefore will influence the Canadian economy which is inextricably interwoven with our farm economy. The proposal put forward for an increase of 30% in our freight rates cannot fail to handicap the farmer and definitely to discourage land settlement and national progress generally. In the long run it would have a marked tendency to reduce volume of haulage for Canada's railways and definitely to encourage competitive forms of transportation.

World Competitive Position

The effect of higher freight rates on our competitive position in world markets is to the live stock producer a very important factor. Live stock production and western agriculture in general have reached their present levels because they have been geared to supply a market much greater than can be provided by Canada's twelve million people. If operating costs limit or curtail the live stock industry to that proportion which would merely supply the Canadian market under normal conditions, the result would be disastrous to the farming west. If live stock production remains at present levels and too high operating costs block or retard trade in live stock and live stock products, the Canadian market will develop a chaotic condition. Canada's place as a major exporter of live stock or live stock products can be maintained only if her trading position permits entry to the United Kingdom or the United States on a cost basis comparable to that of competing countries.

An increase in freight rates will increase production costs. Increased production costs can eliminate suppliers from a highly competitive market and therein lies a very serious threat to the Canadian live stock industry.

Submission

by

MR. CLIFFORD E. WOOD

ON BEHALF OF THE MANITOBA FEDERATION OF AGRICULTURE AND CO-OPERATION

June 30, 1947

Introduction

The Manitoba Federation of Agriculture and Co-operation is a federation of the agricultural co-operatives in Manitoba. Through its member organizations, it represents something over 45,000 of the 56,000 farmers in the province. Those member organizations include: The United Grain Growers, Manitoba Pool Elevators, Manitoba Co-operative Wholesale Ltd., Manitoba Dairy and Poultry Co-operative Ltd., Manitoba Livestock Co-operative Ltd., Manitoba Co-operative Honey Producers Ltd., Manitoba Co-operative Cheese Producers Ltd., Winnipeg District Milk Producers Co-operative Association, Canadian Co-operative Implements Ltd., and a number of smaller co-operative societies.

The main function of the Federation is to represent the views of organized agriculture and the co-operative movement in Manitoba to governments and other public agencies and authorities. It also carries out a broad program of educational and information services through the media of press, radio and mail. This program is designed to interpret the views of agriculture to the general public, to promote the progress of the rural community, and to raise the standards of farm life. Organized democratically, and representing farmers in all circumstances and in all sections of the province, no other organization is as well qualified to speak for the organized agriculture in this province.

Scope of Submission

It is our intention to deal with the subject of freight rates under two main parts: (a) A general statement in respect of the application by the Railways Association of Canada for a 30% increase in freight tariffs on all items except grain, with special increases for coal, and (b) An examination of the effect of such an increase on the agricultural economy.

We will submit that the proposed increase in freight tariffs, if granted would: (a) increase the cost of production of agricultural products; (b) raise the cost of farm living; (c) narrow the field of competition for Manitoba farm products; (d) aggravate the discrimination in freight rates as between Eastern and Western Canada and, therefore; (e) have a profoundly adverse effect on western agriculture.

A—*General Statement*

Farmers have a special, vital interest in freight rates. Freight rates are an important factor in determining production costs of the things a farmer sells, and enter largely into the price of the goods he must buy.

Once rates are set, they tend to remain fixed, particularly in areas where no effective competition exists. Naturally, farmers view with considerable apprehension any attempt to bring about a permanent increase in their fixed costs of production. The proposed tariff changes, if implemented, will increase the cost of every item the farmer has to purchase (except those manufactured in his own locality), and decrease the net revenue from most of the things which he sells.

Discrimination

The proposal to increase freight rates by 30% serves to bring into sharp focus a condition which for many years has been protested in vain by the farmers of this and other western provinces—the matter of freight rate discrimination between Eastern and Western Canada.

It is well known that freight rates for similar classes of merchandise hauled comparable distances are considerably higher in Western Canada than in Eastern Canada. The reasons are equally well known: Western railway lines have a semi-monopoly of the transportation services—Eastern lines must compete with truck and water transport systems. Western lines have neither effective truck competition, serious competition from United States railways, nor competition from water systems. Strong competition will discourage the railways from making increases effective in the highly competitive zones. Even if freight rates are increased in Eastern Canada, loss of traffic to competitive systems will force the railways to bring rates down again. It follows then that the incidence of the increased rates will be mainly on the four western provinces.

Farmers Not to Blame

The conditions which have prompted the railways to ask for another $84,000,000 in 1947 and an amount proportionate to the traffic in later years, were brought about by a national emergency, involving all the people, and it is therefore, in our opinion, manifestly unfair that this new tax should be imposed in a manner which will bear with particular weight upon Western Canadians. We contend that so far the railways have been unable to establish the necessity for any increase in freight revenues. To the extent that the railways may be able to prove that some increase is necessary, in order to maintain their services, we submit that a more equitable distribution of the new costs must be made. However, in determining whether an increase in revenue is warranted, we strongly urge that your Board consider this point—no company, especially a public utility, as a matter of right, is entitled to maintain its war-time prosperity and net earnings by obtaining authority to charge what it may consider its extraordinary costs against a minority of its customers.

B—*Effect of Proposed Rate Increases*

Cheap Transportation Essential

Western farmers produce food largely for export or for consumption in distant parts of Canada. For this reason cheap transportation is essential if our farmers are to maintain their competitive position in the markets

where they sell their goods. It follows then that any upward revision of freight rates will tend to further narrow the extent of the area in which shippers of agricultural products can compete, and reduce the returns to the farmer. It also follows that since Western Canada depends very largely upon the income from agriculture for its livelihood, and for the welfare of so many of its people, a substantial increase in freight costs such as those presently proposed would have an immediate adverse effect on the general economy.

Eastern manufacturers also have a vital interest in western agricultural prosperity since it is to the west that they must look for markets. In considering the request of the Railways Association, may we respectfully suggest that consideration be given to this aspect of the Canadian economy.

Inflationary Effect

Farmers are naturally concerned about the mounting costs of production. It should be borne in mind that many of the major items of farm produce are under some form of price regulation; that is, they are tied to export contracts or prices as in the case of wheat, eggs, beef, pork, cheese, etc., or they are kept under ceilings as in the case of coarse grains. There are very definite upward limitations to the prices for farm products, and the margins between income and cost of production are under constant pressure. Under these circumstances, the farmer wants and should have the protection of control over the costs of the things which he buys, otherwise his margins on all products may in time disappear, as they already have in some instances. Should any increase be granted to the railways, it seems clear that the prices of items which farmers buy would inevitably be increased because of the pressure of additional transportation costs. It is our opinion that existing price controls would collapse. In support of that view, Donald Gordon, former head of the Wartime Prices and Trade Board was quoted by the Canadian Press on January 11, 1947, as having stated that "a 30% increase in rates would mean that very strenuous pressure would be placed on the price control policy". There is no doubt in our minds that the proposed increases would have a decided and immediate inflationary effect on the economy.

Diversion of Traffic From Railways

The railway system is essential to the development of rural communities and economic growth of the farm industries. It is submitted that the railways should take into account the probable effect of permanent rate increases on the attitude of the rural communities to the railway companies. It is not unlikely that the reaction against freight rate increases will take the form of a greater use of privately owned trucks and commercial trucking services. This will have the effect of reducing rail traffic to the point where the revenue derived from the proposed increases will be entirely offset.

Effect of Rural Communities

The increased use of trucks will have far reaching effects on the development of rural communities. In the past, most of these communities

have been centered around railway shipping points. The reduction of railway business through the diversion of traffic to trucking companies will tend to centralize business and social activities in the cities and larger towns. This, we suggest, will be detrimental to the social organization of our farming communities.

The Farmer's Position

As indicated above, the farmer finds himself squeezed between ever increasing costs and more or less fixed prices. He is in the position of having to sell many of his products under price regulations, and of having to purchase both consumption and production goods from which ceilings have either been removed or substantially raised. Thus it is almost impossible for him to pass along added costs to the consumer, while the price of the manufactured goods he buys are constantly being raised because of the pressure against price controls, or the lifting of them. The result is that for the farmer there have been steady increases in both cost of production and cost of living goods.

Farm prices have a history of violent fluctuations and tend to remain at low levels for long periods of time. They quite often go below production costs. Present price levels of farming products reflect the shortage of food resulting from war conditions. However, the experience of previous post-war periods indicates that we should prepare for declining farm prices. On the other hand, it would appear from the application of the Railways Association that any freight rate increase would be permanent. If farm prices decline, the burden of the increased freight costs will be even greater than in the past. Farmers will not easily forget that not too many years ago the freight rates on many farm products absorbed almost the entire proceeds from their sale. Nor were farmers awarded lower freight rates to help offset their greatly diminished income during the last depression.

Summary of Argument

The substance of our argument against the imposition of a general increase of 30% in freight rates may be summarized thus:

(a) The proposed freight rates will mean a permanent increase in the costs of production of farm products;

(b) Because of competition, the proposed rate increases will have to be borne largely by Western Agriculture;

(c) It is unfair to impose these rates on a minority of the Canadian people, particularly since that minority is not responsible for the conditions which have prompted the railways to ask for increased rates;

(d) The present rates already discriminate against Western Agriculture, so that any further increase will aggravate that discrimination;

(e) The requested increase will have a definite inflationary effect, raise production and living costs, and bear heavily upon the farmer whose income is still largely limited by control.

Submission

by

MR. E. B. CHOWN

ON BEHALF OF
MANITOBA CO-OPERATIVE WHOLESALE LIMITED

June 30, 1947

The Manitoba Co-operative Wholesale Limited is an organization entirely owned and operated by some 30,000 members residing in Manitoba. The function of the Company is to supply approximately 120 Local Associations with a wide variety of goods, such as gasoline, distillate, motor oils, binder twine, coal, hardware, feeds, etc. The total business of the company and its affiliated associations will exceed $7,000,000 in 1947. Although it is impossible to work out the exact amount, there is no question that such a sales volume represents a very susbtantial amount of freight, all of which must be ultimately assumed in full by the member patrons.

The matter of the freight rate structure is so important to the economy of Western Canada that we feel compelled to place our objections to the proposed 30% increase in freight rates, before your Board. We are certain that it is not necessary to deal exhaustively with the subject, because already a wealth of detailed information has been placed in your hands. We have examined many of the Briefs and Submissions that take objection to this horizontal increase, and we wish to state that we are generally in accord with the views expressed. We have also noted the evidence submitted by the railroad companies, but we cannot agree that their proposal to rectify the situation is in the best interests of Canada at large.

We wish to emphasize several points in particular:

1. *Cost to the West*—It has been stated that the proposed increase in rates would bring, in 1947, an estimated $30,000,000 or more extra revenue to the railroads from Western Canada alone. An extremely small portion of this amount could or would be absorbed by the distributor, manufacturer or marketing agency. The burden of any increase would be borne by the primary producers or ultimate consumers. Moreover, the sum is likely to be greatly increased as most distributors follow the practice of adding a percentage mark-up to their laid-down costs. A freight rate increase of 30% may well become 35% or more before the product reaches the hands of the consumer. Irrespective of the exact amount, the freight increase will have to be borne by the comparatively limited population in Western Canada.

2. *Western Differential*—The evidence seems to indicate that the greatest profits of the railroads, over the course of the years, have come from western operations. At the same time, it is known that the freight rates for like commodities, moved equal distances, are higher in the west than in the east. Although competitive water and truck transportation may be the excuse for such a situation at the present time, there can be no

justification for further discriminating against the people of Western Canada to the extent of a horizontal increase in freight rates. It seems about time that Eastern Canada undertook to shoulder its fair share of the cost of operating Canada's national railroad system.

3. *Truck Competition*—Compared to Eastern Canada, truck competition has been limited in Western Canada. According to Manitoba law, it is necessary for trucking concerns to observe the same freight rates as the railroads, and this, in itself, has been a limiting factor. There appears to be two courses open to the Provincial Regulating authorities, in the event of an increase in freight rates. First, if the Manitoba Government continues its policy of tying together the freight rates for these two types of transportation, any higher rates would mean greater profits for all trucking companies. This would certainly induce more companies to enter the business and the present companies to spread their operations farther afield. It would also cause many large companies to put on their own fleet of transport trucks for distribution of goods and the collection of the farmer's product. If, on the other hand, the Manitoba Government should not permit the trucking companies to follow any higher rates imposed by the railroads, it is obvious that where many firms are now indifferent as to whether their goods go by truck or rail, they would naturally swing over to truck delivery. Thus, in either case, the railroads would definitely suffer from a volume viewpoint, which is most essential to their earnings.

4. *Rigidity of Freight Rates*—Freight rates remain rigid and inflexible for long periods of time, whereas the farmer's income fluctuates between extreme limits. What he may be able to afford to pay in one year, may be totally beyond his capacity the next year. There appears to be no question that even before any increase is considered, western agriculture has borne more than its share of railroad operating costs. If there were adequate competitive transport systems in the west, it might be surprising how much less the farmer would be called upon to pay out of his pocket to the railroads.

5. *Railroad Operating Costs*—It is impossible for an outsider, not familiar with railroad operating techniques, to know whether our Canadian railroads are operated at top efficiency or whether economies could be affected that would make a freight rate increase completely unnecessary. We presume that the Board of Transport Commissioners has, already, or will, in the future, thoroughly examine the whole operating structure. On the basis of evidence presented in some Briefs, it appears that definite savings could be affected.

We have mentioned just a few of the many vital objections to the present proposal. There are many more of equal importance. We are doubtful if any increase is really needed. However, if it can be conclusively proven that the railroads require additional revenues, we maintain that any horizontal increase is not fair to the people of Manitoba and not in the best interests of Canada at large.

Submission
by

MR. F. J. GOODMAN

ON BEHALF OF THE MANITOBA DAIRY ASSOCIATION

June 30, 1947

The Manitoba Dairy Association represents a cross section of the Dairy industry of the Province of Manitoba. It includes the Manitoba Dairy Manufacturers' Association, with 70 Creameries and Milk and Cream Distributing Plants, and the Cheese Manufacturers' Association, with 23 Cheese Factories and numerous patrons situated throughout Manitoba, who ship to these creameries and cheese factories. The interests of the operators or manufacturers are closely allied with those of the producers. Several of the dairy organizations are co-operative. The independent operators are in a similar position however. They depend upon the production of milk and cream in their business, and it is in their interest to see that the producer gets a fair price to encourage production. At the same time, the producer is interested in seeing that the manufacturer turns out a high quality product.

The Dairy industry has made unprecedented efforts in the war years to provide the essential and highly nutritional food products so necessary for the health of our nation and of our allies. It has made this effort whilst submitting to drastic and rigid controls throughout the war years.

We submit that the dairy producers of Manitoba would be penalized through any increase in freight rates and that such an increase would result in serious damage to the Dairy industry, which is of such importance in a primary production area such as Manitoba. Like her sister provinces of Saskatchewan and Alberta, Manitoba produces a considerable surplus of creamery butter, and by reason of her geographical location has long distances to ship by rail to the consuming markets of the deficiency areas in Ontario and Quebec. The Montreal price, less freight charges Winnipeg to Montreal, is the standard upon which Manitoba prices are set.

Butter, being a concentrated food product, is by its nature the main dairy product that can be shipped long distances by rail. This is the chief reason why creamery butter absorbs 50.1% of Manitoba's total milk production. It is estimated that, in 1946, 51.6% of Manitoba's butter production was exported to Eastern markets and 23.5% of Manitoba's cheese production was exported to the Western provinces as far as British Columbia. Moreover, 73.2% of Manitoba butter is made at country points; i.e., exclusive of Winnipeg or Brandon. It is most of this butter which is exported out of the province.

Importance of Transportation Costs in Butter Shipments

All items entering into creamery or dairy processing except labour carry transportation costs including freight and express charges. In the butter industry there are three main items entering the transportation picture:

1. Transportation charges on the incoming raw material; i.e., milk and cream.

2. Transportation charges on materials used in manufacturing (wooden butter boxes, salt, washing compounds, neutralizers, box liners, butter wrappers, butter colour, cardboard containers, etc., and all heavy dairy equipment).

3. Transportation on the outgoing, finished product.

We understand that in Manitoba express rates on cream are not subject to the increase sought by the railways. However, supplies going into the manufacture of dairy products will be subject to the increase in freight rates. All heavy dairy equipment comes from the East, as well as most of the supplies going into the manufacture of butter, with the exception of butter boxes, lumber for which comes from Saskatchewan and Northern Manitoba. On outward shipments of butter, of course, the increase in freight rates will apply.

In the following table we list the freight charges on butter from representative points in Manitoba to the Eastern consuming markets.

TABLE 1

RATES FROM REPRESENTATIVE POINTS TO MONTREAL

	Mileage to Winnipeg	Gross Rate per 100 lbs. to Montreal	Net Rate per 100 lbs. to Montreal
Gladstone	91	$1.98	$2.26
Brandon	134	2.04	2.33
Souris	151	2.08	2.38
Virden	189	2.13	2.43
Shoal Lake	171	2.10	2.40
Roblin	239	2.25	2.57
Swan River	278	2.28	2.61

Note—Gross rate shows a lower cost than the net rate. This is due to the gross rate being figured on 56 pounds of butter, whereas the 56 pounds of butter when packed for shipping weighs 64 pounds, thereby increasing the net rate as shown.

C.N.R. mileage Winnipeg to Montreal — 1,353 miles.

The average net freight rate on Manitoba butter amounts to $2.38 per 100 pounds. The average is arrived at by finding the geographical centre of Manitoba's surplus butter production area, which is approximately 150 miles from Winnipeg. Using this centre as the representative

shipping point, the following table is presented to show the estimated effect of a 30% increase in freight rates on transportation costs for Manitoba creamery butter moving to the Eastern market.

TABLE II

REPRESENTATIVE TRANSPORTATION COSTS ON MANITOBA CREAMERY BUTTER

	Cost per lb. Butter	30% Increase	Cost per lb. of Butter Plus Increase
	Cents		Cents
Trucking and Express (incoming)	2.050	....	2.050
Supplies (incoming)	0.375	0.112	0.487
Butter Shipment (outgoing)	2.380	0.714	3.094
Additional Icing Charges	0.100	0.030	0.130
	4.905	0.856	5.761

A 30% increase in freight rates would mean an additional .86 cents on a pound of butter. The total transportation charge that goes into the cost of a pound of butter would then be 5.8 cents. During 1946, the wholesale price of butter in Montreal averaged 39.5 cents per pound, or, including the Federal subsidy on butterfat, 47 cents per pound. Thus, the cost of transportation would represent 12.2% of the wholesale price plus subsidy. It is important to realize, however, that present butter prices are relatively high and that this percentage would be materially increased in the event that the price of butter dropped, say to 27.9 cents per pound, the average wholesale price of the past fifteen years.

Who Will Bear the Increased Freight Cost?

Any increase of freight rates will ultimately have to be borne by the producer or dairy farmer. The creamery operator, particularly in the past few years, under a highly-controlled marketing system has had to operate under an extremely narrow margin. Competition has been so keen to obtain the raw product from the producer that margins have been squeezed to the limit in the butter industry. It is only by increased volume that many creameries have been able to operate. In 1943, Manitoba butter production reached a peak of 33,922,000 pounds, but this had dropped in 1946 to 26,067,000 pounds. Now that a decrease of 113,094 pounds in the average make per creamery in Manitoba has set in since 1943, the peak butter production year, no further squeeze can take place in the margin, so that any increased cost in transportation rates cannot be borne by the operator. Manitoba butter being an exportable product the price is governed by the Montreal and Toronto markets and it is extremely improbable that the dealers and distributors on those markets can be persuaded to increase prices to cover the increased freight.

Effect of Certain War Orders and Controls on the Dairy Industry

It should be pointed out in connection with the railroads' present application for an increase in rates, that they have had, in dealing with the Dairy industry, previous operating benefits. To instance this, an order covering maximum laoding of freight cars became effective in January, 1943. Whereas prior to this date the railways handled a minimum car of 20,000 pounds for shipment east of Port Arthur and Armstrong, Ontario, under the new order cars of butter had to contain a minimum of 40,000 pounds, and for all points in the west, 30,000 pounds. The effect of this order must have meant a tremendous saving to the railways, as the number of cars necessary to haul the same volume would have been proportionately less. Although no figures are available, operating costs were obviously reduced materially. Moreover, the Dairy industry was put to an expense in the type of car used; in the fall, winter and spring months ordinary box cars were used instead of refrigerator cars. This meant a considerable cost to the creameries in utilizing these cars for a perishable product such as butter.

Inflexibility of Freight Rates

We submit that if any increase in freight rates is granted it is likely to be effective for many years. Today no-one can tell what will happen to prices of the products of the Dairy industry. Normally history repeats itself, and looking back to what happened after the last war we can expect a definite lowering of prices even though this may not be as disastrous as when butter fell from 54c to 26½c in the course of two months in 1921. We feel that it is completely unreasonable to saddle the producer with higher freight charges over an extended period on the basis of what may be very short-lived prosperity.

Importance of Dairy Industry

If Manitoba, and indeed Western Canada, is to progress and maintain a satisfactory grain production, it is necessary to encourage dairying, not to penalize it. A reduction of the producer's return will curtail production still more. Good farming practice demands that over large areas in the West and in Manitoba soil conservation is essential. For soil conservation we must seed more land to grass and pasture, and to utilize this grass and pasture we must turn more and more to the most efficient method for this utilization, which is the Dairy Cow. History has shown that diversification is necessary over all agricultural areas. There is no new West; we must conserve what we already have.

Submission

by

MR. F. J. GOODMAN

ON BEHALF OF THE
MANITOBA DAIRY AND POULTRY CO-OPERATIVE LTD.

June 30, 1947

PART I

Introduction

The Manitoba Dairy and Poultry Co-operative, Ltd., is a co-operative marketing organization owned and controlled by some 35,000 farmer members in the Province of Manitoba. Its function is to assemble, grade, process and sell dairy products, eggs and poultry on behalf of its members.

Our purpose in presenting this submission is to protest the granting of a general increase in freight rates of 30% as requested by the Railway Association of Canada. It is proposed in this submission to examine the implications of such an increase, and to show how it would add to the burden of an industry already saddled with high costs and low margins. We will also try to assess the effects of such an increase on the production of these subsidiary farm products.

Nature of the Industry

The production of dairy and poultry products in this Province is a secondary agricultural enterprise. It produces a low return per unit relative to the amount of labour and expense involved. With most farmers it involves extra hours of labour and special care in handling. For these reasons, production reacts quickly against anything which tends to reduce the small margins which are allowed the producer. This is particularly true of dairy products such as butter. Butter production has decreased steadily for the past four years, largely because rising labour and feed costs have narrowed the producer's margin to the point where it is questionable if one exists. Production has gone down in spite of an unprecedented domestic demand. It is very noticeable that every time an increase in production costs is announced, there is an immediate reaction against it, and more farmers discontinue production of dairy products. To a lesser extent this also applies to eggs and poultry.

An increase in freight and express rates would undoubtedly raise production costs in these lines. We contend that, to the extent these cost increases cannot be passed along, they will have the effect of curtailing production of food lines that are badly needed both for export to the United Kingdom and for domestic trade.

Natural Disadvantage

The markets for most of Manitoba's surplus dairy and poultry products are in Eastern Canada. By reason of distances, and consequently of higher freight charges, our producers are under the handicap common to

all Western farmers, that of competing with Eastern producers who are close to their markets. This is a natural disadvantage. There is, however, a further disadvantage which aggravates our competitive position—that is, the lower rates paid by Eastern producers for freight carried an equal distance in Eastern Canada.

It is obvious, then, that any further increase in freight rates will impose an additional handicap on Manitoba producers.

Economic Effects

Eggs

Egg prices are tied to the export contract price and rarely rise above it and then only for short periods. There are, therefore, very definite limitations to price increases, and consequently limitations to the degree to which higher production costs may be shifted to the consumer or distributor.

In response to wartime and post war demands, this Province almost quadrupled its production of shell eggs since 1940. It now produces a very large surplus of eggs over local requirements to meet the demands of the British people, to whom the surplus is sold at long term contract prices. The British contract, however, is set at figures just sufficient to keep farmers interested in producing eggs. Only a very modest margin remains to the producer and, were it not for the contract, there is little doubt but that the price of eggs would fall below production costs for several months of each year. The margin left for the producer is under constant pressure of rising feed costs which would rise still further if the railways are permitted to charge more for freight.

On all eggs delivered to the British Ministry of Food, which represents our entire surplus, any increase in freight rates will have to be borne by the producer since it is impossible to pass it on to the British taxpayer or consumer. The British Ministry of Food has stated that present prices are to be considered the maximum.

In producer owned organizations such as this, there is little doubt about who will pay for any increase in freight rates. The producer will pay in higher feeds costs and lower prices received. It is our contention that if the poultry industry is to continue to flourish and supply the demand which presently exists, it cannot be asked to assume greater costs and lower returns. The industry is operating on low returns now, and any further reduction would have the effect of driving more people from the industry.

Poultry

It should be pointed out that normally the poultry market is a buyer's market, and it is improbable that the producer will be able to pass along added freight costs. It is possible that at the present time the prices of poultry might be adjusted upwards—under prevailing conditions of short supply the consumer might be induced to pay higher prices because of competition for the product. But in the long run it is inevitable that any additional freight charge would be borne by the producer.

PART II

Purpose

In Part II of this submission we propose to demonstrate the effects of the proposed 30% increase on the costs of handling certain products which this organization merchandises for its members—eggs and poultry. As it is extremely difficult to estimate accurately the total cost to the industry, the examples are in terms of cost per unit only. In all cases it is assumed that the product moves by rail or by truck charging competitive rail rates.

Shell Eggs

The transportation charges involved in the marketing of eggs arises from the following: (1) assembly costs; (2) freight charges to market; (3) freight charges on packaging material.

Shell Eggs Shipped in Carlots:

	Present Costs Per Doz.	Cost After a 30% Increase	The Amount of Increase Per Doz.
	Cents	Cents	Cents
(a) Domestic Sales—Eastern Cities			
Assembly to Winnipeg....	.86	....	....
Freight to Market.........	2.58	....	....
Freight on Supplies.......	.16	....	....
	3.60	4.68	1.08
(b) Export Sales—Montreal			
Assembly to Winnipeg....	.86	....	....
Freight to Market—Export Rate...........	2.05	....	....
Freight on Supplies.......	.16	....	....
	3.07	3.99	.92
(c) Delivered to Driers—Winnipeg			
Assembly to Winnipeg....	.86	....	....
Freight on Supplies.......	.13	....	....
	.99	1.28	.29

Note—Based on Manitoba's 1946 deliveries to the Special Products Board, the additional of freight would amount to $32,000 (approximately).

Poultry

Transportation costs on dressed poultry derive from: (1) inward express or freight to packing plants, processing plants, assembly warehouses; (2) outward freight to market; (3) freight on supplies (boxes, paper, nails, etc.). The following statement shows how a 30% increase in transportation would amount to almost ¾ cents per pound.

	Present Cost Per lb.	Cost After a 30% Increase	The Amount of Increase Per lb.
	Cents	Cents	Cents
Assembly costs to carlot point..	.59	....	....
Freight on Supplies..........	.10	....	....
Freight to Montreal (3rd Class)	1.78	....	....
	2.47	3.21	.74

The effect of increased freight rates on the dairy industry has been dealt with in the brief submitted by The Manitoba Dairy Association and we concur with the views they expressed.

Submission

by

MR. JOHN B. BROWN

ON BEHALF OF THE
CANADIAN CO-OPERATIVE IMPLEMENTS LTD.

June 30, 1947

This brief is presented on behalf of the fifty thousand farmer members of Canadian Co-operative Implements Ltd. and also on behalf of all purchasers of farm machinery in Western Canada.

We wish to draw attention to the fact that this co-operative was established as a direct result of recommendations of committees of the House of Commons and of the Saskatchewan Legislature. Its purpose is to reduce prices of farm machinery through co-operative distribution.

Freight charges are an important element in machinery prices and farm machinery is an important element in farm production costs. The rapid development of mechanization in farm practice, the paralysis of demand which existed in the 1930's, the damming-back effect of Government restrictions in the last few years, must all combine to produce an absorption for a number of years to come above anything so far known. Crops and prices of farm produce will affect the demand from year to year, but regardless of his financial position the farmer will, mainly as a result of the progressive displacement of the horse as a source of motive power, buy more machinery than heretofore. Insofar as the railroads are concerned the use of the tractor in place of the horse represents not only a substantial freight volume in itself, but also involves the moving to the farm of the fuel for the tractor, and the moving to market of the coarse grains which the horse would have consumed—in all, a significant increase in traffic.

In the report of the special committee of the House of Commons on Farm Implement prices issued in 1937, to which reference has already been made, it was found that freight charges on the basis Eastern factory to Regina represented 8.6% of the dollar spent by the farmer on machinery. This figure represented the weighted average of figures covering nine typical machines. Since then the retail price of farm machinery has been increased by some 17.5%. This means that the proportion of the farmer's dollar spent on machinery, represented in freight charges, factory to Regina, now amounts to 7.4%. It was estimated in the report above referred to that the backlog of farm implement requirements in Western Canada in 1937 amounted to $145,000,000, and that farmers would be required to purchase annually more than $50,000,000 worth of machinery in order to meet their needs. Since then the backlog has undoubtedly increased. The demand for the heavier, more expensive equipment required for mechanized farming, together with a general 17.5% increase in farm machinery prices, will probably increase the dollar value of annual requirements to at least $60,000,000.

In 1945, the last year for which figures are available, retail sales of farm machines in the prairie provinces totalled some $48,000,000, while repair parts totalled some $18,000,000. Demand was far in excess of the supply of machines. Due to the scarcity of new machines, sales of repair parts were higher than would normally be the case.

If we assume an average future Western annual absorption of some $60,000,000 of farm machines, plus $15,000,000 repair parts sales, freight charges factory to prairies should amount to approximately $5,550,000. Estimating the local freight charges, distribution point to country point, at one-third of the East-West charges, this would represent approximately $1,850,000. A 30% increase in freight rates would, therefore, represent, on the basis of the foregoing estimates, an added yearly burden of some $2,220,000 for the Western farmer on his purchases of machinery and repair parts.

Under the Crows Nest Pass Agreement, prior to 1922 farm implements were included as a commodity securing special freight rates. Since 1922 farm implements have not secured the preferred rate. As a result, freight rates were substantially increased. For example, in 1913 it cost $17.80 to move a binder from Ontario to Regina. The present cost is $25.42, an increase of 43% in the former freight cost.

Canadian Co-operative Implements Ltd., as an agent for its farmer members, manufactures machinery at its own factory in Winnipeg and also purchases machinery from the Cockshutt Plow Co. Ltd. at Brantford, Ont. All freight charges are paid by us and all net surpluses on operations will be returned to our members in the form of a patronage dividend. Any increase in freight rates will reduce the dividend by the exact amount of the increase, that is, by the increased price that will require to be paid on raw material coming to our own factory and that paid the manufacturer to compensate for incoming freight increases, (assuming those became effective in Eastern Canada), plus the increases in the East-West haul and in local freight to the country point.

In view of the fact that any increase in freight rates will be of a more or less permanent character, any consideration of the ability of the farmer to bear any increase must be based on an estimate of his position over the next ten or twenty years. It is submitted that the continuation of a combination of good crops and good prices over this period of time is inconceivable.

The Western farmer must sell his produce in a world competitive market. In the past he has frequently sold his produce for less than the costs of production. In the future it is possible that he may be compelled to do so again. For the five year period, 1931-35, his purchasing power was so restricted that his average yearly purchases of machinery were no greater than the estimate we have made of the future annual freight charges on machinery and repairs. The margin between his production costs and the prices he receives for his produce determines not only his own prosperity but also very largely determines the prosperity of Canada. Over the years, since the West was settled, the margin has certainly been altogether too narrow, not only for the good of the farmer, but also for the good of all.

We submit that it is a matter of national concern, especially during this period of heavy machinery purchases and the prospect of declining farm prices, that no additional fixed charges be introduced into the farmers' costs of operation. We have shown what a 30% increase in freight rates would mean to machinery prices. Any increase in the present charges would tend to discourage sales and consequently reduce the tonnage hauled by the railroads. New revenue from a freight rate increase might well be offset by a relative decline in the volume of machinery handled.

For the reasons adduced we respectfully submit that no increase in freight rates be allowed.

Submission

by

MR. H. E. WILDER

ON BEHALF OF
THE GARMENT MANUFACTURERS' ASSOCIATION

June 30, 1947

This submission is being made on behalf of the members of the Garment Manufacturers' Association of Western Canada. This association comprises twenty-six firms, representing nearly all of the Manitoba plants, producing work-clothes and sportswear, such as overalls, pants, work-shirts, sports jackets, etc. for men, women and children.

The Garment Manufacturers' Association contains the oldest and largest branch of the needle trade industry of Manitoba. Other branches of this industry, not affiliated with our Association, are the fur-goods and fur-dressing plants, ladies' cloaks and dresses, gloves, caps, etc.

It is interesting to note that the needle trade industry of Manitoba occupies a rather unique position in relation to all other processing plants which use raw materials other than those originating in the West. Most other plants either use home-grown materials and export the processed goods or import the raw material and sell the fabricated goods locally. The needle trade, however, imports and exports its materials. In this respect the needle trade is doubly affected by any factor which disturbs the transportation costs.

We shall refer to this further on. We believe it is pertinent at this point to refer to the specific character and function of the needle trade industry which, while it may not have a direct bearing on the question of freight rates, is relevant insofar as it effects the general welfare of the Province.

Up to about thirty or forty years ago, Winnipeg was the proud and promising Metropolis of the fast-developing Great West. Located geographically in the very centre of Canada, with its vast and alluring hinterland, it was almost inevitable that Winnipeg should assume the character and function of a compact, yet resilient basin where the primary products of the West, and the processed merchandise from the East, were converging, flowing in and out in a constant stream.

Not alone was Winnipeg the centre of this vast area, but in the very centre of Winnipeg, there emerged a chain of massive, rock-bound, huge warehouses, flanking the old post office, and covering a square extending from the Red River on the East to Princess Street on the West, and from Portage Ave. in the South to the City Hall on the North. In these great warehouses, were being poured the carloads of goods from the East, there unpacked and from there reshipped in smaller units over all the roads radiating out of Winnipeg to the thinly-spread, widely-scattered, pioneering settlements of the West.

Around these massive warehouses were erected the equally imposing, stone-faced, counting houses, forming the financial stronghold which guarded, with a paternal watchfulness, the growing, vigorous cosmopolitan distributing centre, Winnipeg.

Then suddenly something happened. The circulatory system was rent at some point. The heart of Winnipeg grew faint. The large, proud warehouses strung along McDermot and Bannatyne Avenues became for the most part deserted, ghostly. Even some of the self-assured banking houses were forced to shut their doors.

The financial geniuses who with foresight, energy and zeal had but a generation earlier conceived and nursed this distributing center and the great commercial enterprises of Manitoba, and built the rugged warehouses, had served their generation well, but were no longer able to scan the future with their dimmed eyes. The Board of Trade tried desperately to induce the younger hands to take over and readjust themselves to the newly created situation. They realized that some cataclysmic forces had shaken and shifted the foundations of Winnipeg. They knew that Winnipeg could no longer serve merely as a distributing centre and could no longer count merely on others to produce. If it were to survive, it would have to become more self-dependent and producing for a living.

Some younger men came forth and established shops and industries based on primary products near at hand, and Winnipeg began to emerge as an industrial City.

But there were many more willing, capable hands; there were massive buildings which stood empty, silently begging that they be put to some use.

Someone had to take the initiative. Someone who would be willing to work hard, and long and experiment and take chances.

Someone did.

The initiative came from unexpected sources and unsuspected quarters; it came from small inexperienced men, many of them New-Canadians, with little capital, but much grit, with confidence in their capacity to work, and with faith in the future of that part of the country in which they chose to settle.

Slowly, carefully, inch by inch, they took up space in the empty warehouses, installed there a few machines; with strong hands and patient plodding men and women to operate them, and thus gradually there grew up, on the foundations of the old distributing warehouses, the young, thriving, producing needle-trade of today.

It would not be correct to assume that these newcomers were chiefly responsible for the establishment for the work-clothes industry of Winnipeg; they were not the founders of it. As it was natural, the fathers of this industry were the older Canadians of British stock who ventured into the business some fifty years ago. But these were few. It was not until some twenty years later when the transportation system suffered a change, rendering the distributing role of the Winnipeg warehouses obsolete—that the needle trade industry began to expand.

The point that we are trying to make is, that this new industry was able to gain a foothold because they could take advantage of three favourable situations:

1. Availability of low rent in suitable buildings.
2. Availability of cheap power.
3. Stabilized freight rates.

These are essential factors in the development of the needle trade industry. They demonstrate that the needle trade industry achieved a place for itself in the economy of Manitoba only by the exercise of the utmost economies in production and stability of transportation costs. Any increase in the cost of production or transportation therefore, is likely to endanger the very existence of this industry, by rendering it incapable of meeting the already stiff competition from elsewhere and of overcoming the obstacles in its path.

What these obstacles are may be judged from the following items, to choose only two:

1. Double transportation costs. As already indicated the needle trade manufacturer has to import the raw material from the East, and therefore has to pay the cost of transportation over a long haul, including the cost of transportation for materials which are being lost in the process of manufacturing. To this must be added the cost of transportation to the point of consumption back East or further West. The eastern manufacturer however, obtains his material almost right at home. He pays little, if anything, for the transportation of that. True, he has to pay the transportation cost for the manufactured article to a point west, but even with this he has an advantage. To illustrate:

The rate for 100 pounds for raw material from Montreal to Winnipeg is	$2.22
The rate for 100 pounds for manufactured material from Winnipeg to Vancouver	3.72
TOTAL	$5.94
The rate for 100 pounds for manufactured material from Montreal to Vancouver	5.52
An advantage for the eastern manufacturer of	$ .42

2. Lower labour costs. According to report No. 28 of the Department of Labour, issued in February, 1947 (covering 1945 period), the latest available, gives the average wage rate per hour, for sewing machine operators, female, on work-clothes, as follows:

Average rate for Canada	43c
Nova Scotia and New Brunswick	30c
Province of Quebec	38c
Province of Manitoba	46c

As can be seen, the Garment Manufacturer of Manitoba is now at a double disadvantage—any further increase in his cost of production simply serves to increase and exaggerate that disadvantage.

It must be noted that our group of manufacturers produce chiefly work clothes; that is, clothes intended for the farmer and laborer. This means that we cater principally to the lower income group of the population, the men and women who are most sensitive to price fluctuations and price level.

Due to the several cuts in the Government's subsidy on cottons, since the war, the prices of work-garments have had to be increased, not once but several times, to the great annoyance and disappointment of the consumers. There is still a margin of subsidy, which the government may decide to withdraw and thus precipitate another increase in price. If to this there should come an increase in freight rates, the consequent advance in price may result in so completely discouraging our consumers as to induce them to do without any work garments or to seek the cheaper grade obtainable elsewhere.

The actual figures showing the differential in cost between the present and proposed freight rates are readily available. On an average, the additional cost per dozen pair of overalls, for example produced in Winnipeg and shipped to Calgary, will be from 30 to 50 cents a dozen—an additional burden which the manufacturers most decidedly cannot absorb and must pass on to the consumer.

The manufacturer cannot absorb it because, even as it is, he can hardly meet the outside competition. A study of the financial history and positions of these courageous enterprisers, would most definitely show that, as a group, they have had very meager, if any, surpluses or profits.

Even during the war years, when all industries throughout Canada, were working at at least a fair margin of profit, the Garment manufacturer, if he did get a chance to work on Government contracts, could do so only by reducing the margin of his profit nearly 50% in order to meet prices obtaining in the East. As for the consumer, it will mean an increase of from 5 to 10 cents per garment.

This may mean the straw that broke the camel's back—an undermining to this industry in Manitoba to the point of elimination.

Just what this might mean in terms of loss to the province, the following figures serve to indicate.

The latest available figures issued by the Census Department, show that in 1944 the needle trade industry in Manitoba had a

Capital Investment of	$5,235,532
Annual Payroll	3,479,125
Aggregate Production of	15,085,770

with an average employment of 3,000 workers.

We would ask the Board to give full consideration to the effect of a freight rate increase on the position of this important industry.

Submission

by

MR. RICHARD J. CHRISTIAN

ON BEHALF OF
ANGLO-CANADIAN OILS LIMITED, BRANDON, MAN.

July 2, 1947

In connection with the application of the Railways for an increase of 30% in freight rates, we wish to submit the following:

We would like to point out that Anglo-Canadian Oils Limited is an independent company, being wholly financed in Western Canada, and is incorporated under the Laws of the Province of Manitoba. The refinery is located at Brandon, Manitoba, and all crude oil processed is obtained from Turner Valley, Alberta.

By our using Turney Valley crude oil the Canadian Railways get the full amount of freight charges and therefore any increase in freight rates would affect us to a greater extent than refineries obtaining crude supplies from the United States, as, in the latter case, the increase would only be applicable to that portion of the mileage on Canadian Railways.

In 1946 we paid total freight charges of $778,885.39. A 30% increase on this amount would be $233,665.61. This would mean an increase of 1.49083296c per gallon on saleable products. Therefore, it would be necessary to increase the present price of refined products to the consumer approximately 1.50c per gallon as it would be absolutely impossible for us to absorb $233,665.61.

We are at a loss to understand why the Railways would ask our Company to pay 30% increase when they have agreed and have applied to the Board of Transport Commissioners for Canada for approval of agreed charges with McColl-Frontenac Oil Company to reduce the cost of transporting refined products from Fort William to Saskatchewan to 70% of the 5th class rate, which is a reduction of 30%. It does not seem at all reasonable. If they can afford to reduce the present 5th class rate (which is the rate on refined products) by 30% to one company, then why should Anglo-Canadian Oils Limited be called upon to pay 30% over the 5th class rate? If they are calling for increased revenue, why can they afford to make this 30% reduction? We submit herewith copy of the application:

> "Canadian Freight Association: Pursuant to Part V, Section 35, subsection 2 of the Transport Act, 1938, notice is hereby given that the Canadian National Railway Company and the Canadian Pacific Railway Company have applied to the Board of Transport Commissioners for Canada for approval of an Agreed Charge executed between the said carriers and McColl-Frontenac Oil Company Limited, for the transportation of all gasoline, kerosene, fuel oil, tractor distillate, naphtha, naphtha-solvents and refined oil (illuminating or burning),

in bulk in tank cars, carloads, from Port Arthur, Fort William and West Fort William, Ontario, to the following stations in Saskatchewan at the charges shown:

CANADIAN NATIONAL RAILWAYS		CANADIAN PACIFIC RAILWAY COMPANY	
Charges in Cents per 100 lbs.			
Canora, Sask.	67	Assiniboia, Sask.	75
Eston, Sask.	86	Humboldt, Sask.	75
Hanley, Sask.	78	Indian Head, Sask.	67
Humboldt, Sask.	75	Kerrobert, Sask.	86
Kindersley, Sask.	86	Lloydminster, Sask.	88
Lacadena, Sask.	86	Melfort, Sask.	78
Lloydminster, Sask.	88	Moose Jaw, Sask.	73
Melfort, Sask.	78	Nipawin, Sask.	76
Melville, Sask.	63	Nokomis, Sask.	75
Moose Jaw, Sask.	73	North Battleford, Sask.	84
Nokomis, Sask.	75	Prince Albert, Sask.	81
North Battleford, Sask.	84	Regina, Sask.	69
Prince Albert, Sask.	81	Rosetown, Sask.	84
Regina, Sask.	69	Saskatoon, Sask.	78
Rosetown, Sask.	84	Swift Current, Sask.	80
Saskatoon, Sask.	78	Unity, Sask.	86
Turtleford, Sask.	86	Wadena, Sask.	69
Unity, Sask.	86	Weyburn, Sask.	67
Wadena, Sask.	69	Whitewood, Sask.	61
Weyburn, Sask.	67	Woodrow, Sask.	78
Yorkton, Sask.	63	Yorkton, Sask.	63

The rates specified are 30% lower than existing rates. If the above reduction of 30% was granted to McColl-Frontenac Oil Company, the following situation would exist:

Fort William, Ont. to Brandon, Man.	554 miles	74c per 100 lbs.
Fort William, Ont. to Moose Jaw, Sask.	818 miles	73c per 100 lbs.
Fort William, Ont. to Virden, Man.	600 miles	81c per 100 lbs.
Fort William, Ont. to Prince Albert, Sask.	1,095 miles	81c per 100 lbs.
Fort William, Ont. to Winnipeg, Man.	420 miles	50c per 100 lbs.
Brandon, Man. to Winnipeg, Man.	133 miles	33c per 100 lbs.

We merely point these out as being just a few instances of the inequality of rates as against mileage. Take the rate on petroleum products

from Fort William, Ont. to Winnipeg, Man.: This rate is 50c and we understand is based on 290 miles, whereas the actual mileage is approximately 420 miles.

We feel that the present rates on petroleum products in Western Canada are high enough and should not be increased, as any increase granted is bound to affect Western economy through increasing costs to the farmers.

There is a discrimination at the present time in rates against our refinery, both in connection with rate of refined products from Fort William to Winnipeg, and crude oil from Calgary, Alberta to Brandon. In this connection, the rate on crude oil from Calgary, Alberta, to Regina, Saskatchewan, is 19c per 100 pounds, for 467 miles, and 16c from Regina to Brandon, a distance of 223 miles.

We respectfully submit the above in protest against any increase in freight rates on petroleum products in Manitoba being granted, as, in view of the present inequality of rates, we cannot see how the railways can justify their request for a 30% increase.

Submission

by

MR. F. D. SHEPHERD

ON BEHALF OF THE
MID-WEST METAL MINING ASSOCIATION

July 2, 1947

The Mid-West Metal Mining Association is grateful for this opportunity to present its viewpoint regarding the proposed increase in railway freight rates. Our membership includes all the base and precious metal producing mines in the Provinces of Manitoba and Saskatchewan and, in addition, a number of others in the course of development or equipment for production.

We believe that satisfactory transportation services will be maintained only if the rates in effect assure the railway companies a reasonable profit on their operations. As in every other industry, their costs have risen. What the increase in the rates should be, we do not presume to assess, since we have not the data, knowledge or experience. We can, however, indicate briefly what effect higher rates will have on mining in the mid-west, confining the remarks to general principles rather than to specific instances.

The exploitation of the Precambrian area of the two Provinces, amounting to 45% of the total, depends very largely on the success of mining development. Were the present mines to close down, the population of all that vast region would dwindle to a few fishermen, trappers and fur traders, with some lumbering and pulp cutting operators along the southern fringe. Currently 90% of the revenues of the railways north and north-east of The Pas derive directly or indirectly from mining. The future depends on the continued operations of the mines and even more on the discovery of new producers. The costs of mine exploration, development and equipment for production have risen sharply in the last eight years, sometimes doubled, greatly increasing the financial hazard of this exceedingly risky business of finding mines and consequently reducing the number of ventures and of new mines. It could lead to gradual extinction of mining and an almost deserted northland. Railway freight charges have not yet added to that burden and we sincerely urge that, when the increases are dealt with, the necessity to encourage the expansion of this important industry always be given high precedence. The experience to date suggests that our portion of the Precambrian is favoured with a dominance of base metals such as copper, zinc, nickel, chromium and lithium rather than of gold, and the railways benefit heavily by the development of such. A policy of encouragement of mining development on their part can only bring handsome returns.

Since industrialization of the prairie region is in its early stages and provides practically no markets for the products of the mid-west metal mines, they must seek them in Eastern Canada, Northeastern United States or in Europe. Here they meet competition of the eastern mines at

a disadvantage due to the higher freight rates from mine to markets. In addition, the midwestern mines suffer the higher cost of freight on many items of equipment and supplies consumed in producing their metals.

To increase these rates by a flat percentage will only aggravate the present handicaps of the midwestern producer. Political leaders have recognized the necessity for adjustment between the various parts of the Dominion to compensate for inequalities of distance, population, markets, natural resources, etc. The same necessity exists here and unless the railways also recognize it in adjusting their new rate structure, midwestern mining, especially of base metals, must operate at a greater disadvantage than in the past.

Submission

by

MR. WILFRED L. PARR

ON BEHALF OF
RAY-O-VAC (CANADA) LIMITED

July 2, 1947

We wish to take this opportunity to submit to this Commission a simple brief which we believe will illustrate some of the problems which Canada must face in the further development of this country and the very important direction which freight rates give to such development.

Leaders of every phase of our life—in politics, commerce, agriculture, manufacturing, transportation—all are agreed that this country can and must develop an immigration policy so that a greater population will be sustained in Canada. It is generally recognized and agreed also that it would be advantageous to have such growth take place throughout the whole country rather than be concentrated in the already more thickly populated areas.

If this is to be accomplished, then industrial development must be decentralized and the opportunity given for all parts of Canada to expand industrially. If this is to take place, then the existing freight rate structure must be closely examined and revised, for, as constituted at present, these rates force a further centralization of industry in the provinces of Ontario and Quebec.

We are a manufacturer of dry cell batteries. There are four such manufacturers in Canada, three located in Ontario and our plant in Winnipeg. All our processed raw materials must be brought from Eastern Canada or the United States, involving longer hauls and hence higher raw material costs than our competitors. The sale of our product is Dominion wide, and our selling price must be competitive if we are to stay in business.

Ontario and Quebec have the larger population, and to service these areas we must absorb extra selling costs by way of outward freight, than our competitors.

In serving the three Prairie provinces we do enjoy a reduction in outward freight costs over our competitors, but the population of this area is only 20% of Canada's total, and even here a complete advantage is not obtained due to through rates existing from the East to Western distribution centres.

In serving the British Columbia territory we have to compete on an equal basis, in spite of the fact that the Eastern plants are twice as far from that market as we are. This is due to the granting of the Panama Canal rate which, in many instances is based upon the false premise that shipments would go that way if not granted a similar rail rate. This assump-

tion ignores extra packing costs to ship by water, delay in delivery of the goods, inadviseability of so shipping a semi-perishable commodity, and non-existence of water routes to the seaboard during the winter season.

In bidding for export trade we are faced with the same differential—much higher costs to ship from the Eastern seaboard, the same cost to ship from the Western seaboard.

A 30% increase in freight rates, if granted, would result in a still greater disparity between our competitors and ourselves in cost of raw materials and in outward freight selling costs. Such increases could not be absorbed in present selling prices and would have to be passed on to the consumer.

We submit that our case serves to show the handicap under which Western industry operates and that a further flat increase in freight rates would increase our difficulties. Existing freight tariffs must be taken into consideration by every potential manufacturer before deciding on location. As presently constituted they have created Ontario and Quebec as most favoured manufacturing areas in Canada, and a further flat increase would accentuate this condition. If you so desire we will be pleased to furnish you with examples of rates which we consider are discriminatory to Western industry.

With the dislocation of peoples and industry in Europe as a result of the war, Canada today stands on the threshold of and with the opportunity for an unprecedented expansion which would enrich the whole Dominion. With such possibilities, we submit that, rather than grant a further increase in existing rates, which would only increase the difficulties involved, the whole freight rate structure should be revised, looking toward a more even industrial expansion throughout the whole country. Canada's opportunity is golden, and your responsibility in this crisis is grave. We submit, therefore, that the present application for a 30% increase in freight rates as they now exist, should be rejected. Instead, all the time, energy and facilities at your disposal should be concentrated on a revision of these freight rates, so that all parts of the country are freed from such an unnatural handicap to their development.